CITY OF WATAUGA, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2017

PREPARED BY

THE CITY OF WATAUGA

FINANCE DEPARTMENT

CITY OF WATAUGA, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2017

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CITY OF WATAUGA, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2017

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INTRODUCTORY SECTION

February 16, 2018

TO: Honorable Mayor Pro Tem Patrick Shelbourne and
Members of the City Council
Citizens of the City of Watauga, Texas

It is with pleasure that we submit to you the Comprehensive Annual Financial Report (CAFR) of the City of Watauga for the fiscal year ended September 30, 2017. We encourage you to thoroughly read this report and take the opportunity to discuss some of the important items it addresses.

As required by City of Watauga Charter Section 9.06 (C) and various other obligations including, but not limited to, bond covenants, "At the close of each fiscal year, and at such time as it may be deemed necessary, the Council shall cause an independent audit to be made of all accounts of the City by a certified public accountant. Upon completion of the audit, the results thereof in a summary form shall be placed on file in the City Secretary's office as a public record." Financial statements are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent firm of licensed certified public accountants.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To provide a reasonable basis for making these representations, management of the City of Watauga has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefit, the City of Watauga's comprehensive framework of internal controls has been designed to provide reasonable assurance, rather than absolute assurance, that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Whitley Penn, LLP, a firm of licensed certified public accountants headquartered in Ft. Worth, Texas, audited the City of Watauga financial statements. The goal of the independent auditors was to provide reasonable assurance that the financial statements of the City of Watauga for the fiscal year ended September 30, 2017 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Based upon the audit, the independent auditors concluded that there was a reasonable basis for rendering an unqualified opinion that the City of Watauga's financial statements for the fiscal year ended September 30, 2017 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

City of Watauga: 7105 Whitley Road • Watauga, TX 76148 • (817) 514-5800 • Metro: (817) 498-3408 • Fax (817) 281-1991

Document Layout

We hope that you will find the information in this document helpful in reviewing the financial position of the City of Watauga for the fiscal year ended September 30, 2017. The Comprehensive Annual Financial Report (CAFR) is presented in three sections:

- The Introductory Section, which is unaudited, includes this transmittal letter, GFOA Certificate, the City's Organizational Chart, and a list of principal officials. This section is designed to provide an overview and general understanding of the report.

- The Financial Section provides a detailed presentation of the financial position and results of operations for the fiscal year ended September 30, 2017. The financial section is divided into four main subsections:

    - Management's Discussion and Analysis (MD&A)
    - Basic Financial Statements and related notes
    - Required Supplementary Information
    - Combining and Individual Fund Financial Statements

- The Statistical Section, which is unaudited, includes selected financial and other data designed to present social, economic and financial trends of the City, providing an overall view of the fiscal capacity of the City.

This letter of transmittal is designed to complement, and should be read in conjunction with, the MD&A. Readers are encouraged to pay particular attention to the Management's Discussion and Analysis (MD&A). The City of Watauga's MD&A can be found immediately following the report of the independent auditors and provides valuable analysis and explanation of the financial statements.

This report includes all of the funds and account groups of the City. It also includes all activities over which the City is considered to be financially accountable.

The Watauga Parks Development Corporation Sales Tax Fund was established to account for a ½ cent sales tax increase approved by voters in May 1994. The purpose of the increase in sales tax is to build City parks and improve existing parks under the supervision of the Watauga Parks Development Corporation Board of Directors. In May, 2012, Watauga voters approved a reallocation of ¼ cent sales tax to provide for street maintenance of existing streets. The ¼ cent reallocation for street maintenance was effective October 1, 2012 and was reauthorized by voters in 2016. Voters must reauthorize the street maintenance sales tax every four years in order for it to continue.

The Watauga Crime Control and Prevention District Fund was established to account for a ½ cent sales tax increase approved by voters in March 1996. In November 2010, the voters approved a ten-year term extension for the District, which now expires in 2021. The purpose of the increase in sales tax is to enhance law enforcement in the City of Watauga. The additional funding is used to add officers and purchase additional equipment and supplies for law enforcement purposes.

The Birdville and the Keller Independent School Districts (ISDs) provide elementary and secondary education services within the City. The City is not financially accountable for the districts and, accordingly, financial data for the school districts are not included in this report.

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures/expenses. The various funds are grouped by type in the financial statements.

As of September 30, 2017, there were twenty-six (26) funds, of which some are combined for reporting purposes bringing the number to seventeen (17) funds. A description of the major funds or groups of funds follows:

The **General Fund** is used to account for all financial resources, except those accounted for in another fund.

Debt Service Funds are used to account for resources used in the payment of principal and interest on the City's general obligation bonds and other general indebtedness.

Capital Projects Funds are used to finance construction costs on authorized capital projects and payments for the acquisition of equipment purchased with contractual obligation proceeds.

The **Storm Drainage Utility Enterprise Fund** is used to account for revenues and expenses related to the operations and maintenance of the City's drainage utility system.

Water/Sewer Utility Funds are used to account for revenues and expenses related to the Water/Sewer utility system, including a Water/Sewer construction fund used to finance construction costs on authorized utility projects.

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for a particular purpose**.** The Street Maintenance Fund is used to account for the ¼ cent sales tax originally approved by voters in May, 2012, and reauthorized by voters in May, 2016, for street maintenance of existing streets, a ¼ cent sales tax for parks, and a fund to account for the ½ cent sales tax increase approved by voters in March 1996, reapproved by voters in 2001 and 2010 for a ten-year period, for crime control and prevention, a fund to account for public donations made to the City specifically for the benefit of the public library, a fund to account for the $3 per offense fee approved by council in 1999 to be used for updating the Municipal Court security, a fund to account for the $4 per offense fee approved by Council in 1999 to be used for updating technology in the Municipal Court, a fund to account for the $5 fee for each violation, except parking, approved by Council in September 2008 to support the Juvenile Case Manager, a Traffic Safety Fund to account for receipts from the Red Light Ticket Program, a Watauga Parks Development Corporation Construction Fund used to account for the acquisition and construction of major capital park facilities and equipment funded with resources from sales tax and sales tax revenue bonds in the Park Development Debt Service Fund and revenues generated from sale of property owned by the Parks Development Corporation, and an Equipment Replacement Fund used to purchase various replacement capital items in the City.

The various funds and account groups presented in this financial report were created under the authority of the Charter of the City of Watauga, Texas, as amended up to and including May 11, 2013, and additionally, by the authority of the State of Texas as outlined in Vernon's Annotated Civil Statutes. A description of the funds used by the City and their purpose and the basis of accounting for transactions can be found in Note 1 of the Notes to General Purpose Financial Statements.

Profile of the City of Watauga, Texas

The City of Watauga is located in Tarrant County, one of the fastest growing counties in Texas, approximately 10 miles northeast of downtown Fort Worth and 25 miles northwest of downtown Dallas. The City's corporate boundary comprises a total of approximately 4 square miles and is approximately 96% developed. Watauga's population as established by the 2010 U.S. Census was 23,497 and was estimated by the North Central Texas Council of Governments at 23,600 as of January, 2016.

The City of Watauga Home Rule charter was adopted on January 19, 1980. The City operates under a Mayor-Council-Manager form of government, with the Governing Body comprised of eight members including the Mayor. Note: The Mayor does not vote unless there is a tie vote, and the Mayor has veto authority. All seven Council members are elected by place number. Due to an amendment in the home rule charter in 1996, the term of office was changed from two-year terms to three-year terms. However, terms were changed back to two-year terms in 2005 by another amendment. The Governing Body is responsible for adopting ordinances and regulations governing the City, adopting the budget, determining policies, and appointing the City Manager, City Attorney, Municipal Court Judge, City Secretary, Department Heads, as well as members of boards and commissions. The City Manager is responsible to the Governing Body Council for appointing and supervising employees of the City (except for those appointed by the Government Body) and for preparing and administering the annual budget and capital improvement program (CIP).

The primary government provides a full range of services including general government administration, police and fire protection, emergency ambulance service, street maintenance, building inspection services, community development, library services, park and recreational activities, and the maintenance and operations of City-owned buildings. The City also has two enterprise funds for operations and management of its Drainage and Water/ Sewer Systems.

The City Charter requires the City Manager to submit a proposed budget for the fiscal year beginning October 1 to the City Council by August 1 each year, and provides for Council adoption of the budget by September 15. Prior to August 1, the City Manager and City department heads prepare expenditure/expense estimates for the remainder of the current fiscal year and for the ensuing fiscal year, and these are compared to estimates of revenue for the same periods. Included in the assessment is the Capital Improvements Projects or CIP program. This program is a five-year plan of major capital programs which may include infrastructure, equipment, buildings, land, or other major expenditures. Adjustments are made to the departmental expenditure/expense estimates as necessary to ensure that the proposed budget is balanced within total estimated income as required by the City Charter.

Following adoption of the budget by the City Council, the City Manager and department heads monitor expenditures/expenses and revenues throughout the year to ensure that the integrity of the budget is maintained. The Charter allows the City Manager to transfer appropriation balances among programs within a department, and provides for transfers of appropriation balances from one department to another upon approval of an ordinance by the City Council. The City Council may make amendments to the budget for unforeseen needs or emergencies. The City Manager is required to make monthly reports to the Council concerning the financial condition of the City.

Local Economy

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Watauga operates. Watauga is located in North Central Texas in Northeast Tarrant County, and is surrounded by the cities of Keller, Fort Worth, Haltom City, and North Richland Hills. The economy of the area is based upon diversified manufacturing and service industries, and agriculture. With its highly diversified economy, Dallas Ft. Worth has a population of over 7.1 million, a Gross Metro Product of $504 billion, a labor force of over 3.5 million, a 3.6% job growth rate, 20 Fortune 500 Firms, and college enrollment of almost 333,000. Economic conditions in the Metroplex continue to be influenced by the development and operation of the Dallas-Fort Worth International Airport, which is located only 10 miles to the southeast of Watauga. The airport, which celebrated its 43rd anniversary in 2017, covers approximately twenty-seven square miles and represents one of the largest facilities of its kind in the world. The airport provides in excess of 228,000 jobs and contributes over $37 billion to the local economy, and $12.5 billion in payroll. (SOURCE: DFW website www.dfwairport.com Fast Facts and DFW Airport 2016 Comprehensive Annual Financial Report.

The Alliance Texas development in North Fort Worth is an 18,000-acre master-planned, mixed-use community which is home to more than 425 companies, 44,000 plus employees, and is anchored by the inland port known as the Alliance Global Logistics Hub. This area offers a variety of commercial real estate options, industrial space, office space, and retail facilities and had a $4.32 billion annual impact in North Texas in 2014 (www.allianceairport.com Alliance Texas Facts).

New development in Watauga is expected to be minimal as the City is approximately 96% developed. Thus our land use assumptions indicate that our maximum population should not be much more than 25,000 residents. The City is entering a phase where revenue growth will be slow, while requests for services and infrastructure replacement for streets and utility needs will increase. **T**he City has been focusing on redevelopment and revitalization in both the residential and commercial section and funding is continued for budget year 2017-18.

Long-Term Financial Planning

The City of Watauga has developed a comprehensive capital improvements document as well as a multi-year financial plan. Such strategic planning has allowed the City Council to fund several major infrastructure upgrades, park enhancements, and capital purchases in a systematic manner while considering the full impact to the operating budget and tax requirements. The City of Watauga intends to continue with an orderly and well-planned program of community service in FY2017-18 and subsequent years. Working within the framework of current financial constraints, the City will focus on infrastructure needs such as upgrades/maintenance of the water/sewer system, street projects, drainage projects and revitalization/redevelopment projects in the upcoming fiscal year and beyond.

Fiscal policies provide for the General Fund reserve to not go below 25% of the General Fund expenditure budget. The current reserve is maintained at 37% of next year's budgeted expenditures. At the end of the current year, the City was in compliance with this policy.

Major Initiatives

The City's 5-year Capital Improvement Plan (CIP) addresses the infrastructure needs throughout the City. The City has completed several projects in the past year and many others are underway. Major drainage projects are underway and will be funded by Storm Drain Fund Revenues in the FY2017-21 fiscal years. There are several neighborhoods throughout the City in which residents have experienced flooding and drainage problems. The projects will provide drainage relief to prevent flooding and damage to residential homes in the area. The first of such projects was designed in FY2012-13 and commenced in FY15-16 Water and sewer improvement projects funded by a $7.73 million debt issuance in FY2012 were near completion at the end of FY2016-17. Improvements include replacing existing lines that will provide improved service to existing customers and replacing existing lines that have been identified as being in poor condition. The sewer lines and manholes to be replaced will continue that were identified via smoke testing and CCTV inspection during FY2014-15. Many of the existing sewer lines to be replaced are undersized vitrified clay tile pipe that is cracking and allowing infiltration and inflow into the lines. The funding for additional water and sewer projects is now in place through the 2017 Certificates of Obligation proceeds in the amount of $7.325 million were received in June of 2017. Major water and sewer line enhancements are being funded with these proceeds and will begin in FY2017-18.

The street overlay and street maintenance program has been enhanced through the reallocation of ¼ cent sales tax from the Parks Development Corporation that voters approved in May, 2012. These sales tax dollars allow for the street program to be funded annually without reliance on the General Fund as the funding source. Through this reallocation, the Parks Development Corporation continues to have enough funding for operations, and planned projects will continue to be funded with the use of fund balance.

The City's Parks Master Plan focuses on improving the quality of life for the community, including park amenities and upgrades, trails, and facilities such as the expansion of the Senior Center that was near completion at the end of FY2016-2017. Projects currently in progress include additions of items such as shade structures and playground equipment in various parks. The 2016 $5.885 million debt issuance provides funding for a splash pad, enhancement to the City's trail system, and various street projects. These projects began in FY2016-17 and will continue over the next several years.

The City will continue to work toward the goal of enhancing the capabilities of the Police and Fire department, while maintaining existing citizen services. In FY2012, the City consolidated our jail and dispatch services with neighboring cities in order to decrease operational costs while providing increased levels of service.

The use of the Equipment Replacement Fund will continue for funding and purchases of equipment, vehicles, technology, and facility needs. In FY2013-14, the City enhanced the use of an Equipment Replacement Fund to level and plan the purchases of equipment and capital items that meet certain cost thresholds and a minimum useful life. This use of the Equipment Replacement Fund was further expanded in FY2014-15 to include the partial financing of legacy equipment.

Awards and Acknowledgements. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Watauga for its comprehensive annual financial report for the fiscal year

ended September 30, 2016. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standard for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Watauga has received a Certificate of Achievement for the last thirty-two consecutive years. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City of Watauga also received the GFOA's Distinguished Budget Presentation Award for our annual budget document for the fiscal year beginning October 1, 2016. This is the twenty-eighth consecutive year that the City has received this prestigious award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

The City of Watauga has also recently received its seventh consecutive Government Treasurer's Organization of Texas' Investment Policy Certificate of Distinction award. The Government Treasurer's Organization of Texas conducts an Investment Policy Certification program, which is designed to provide professional guidance in developing an investment policy and to recognize outstanding examples of written investment policies. This is awarded to those entities that have developed an Investment policy, which meets established criteria. The Certificate is awarded for two years and then may be renewed upon review.

In conclusion, we wish to thank the City Council for their continued leadership and support in planning and conducting the financial operations of our City in a responsible and efficient manner. We also want to thank each person who has contributed to the preparation of this comprehensive annual financial report and the financial achievements reflected herein. And finally, we wish to express our appreciation to each City employee for his or her loyalty and dedication, as demonstrated during the past fiscal year.

Respectfully submitted,

Greg Vick
City Manager

Sandra Gibson, CGFO, CGFM
Director of Finance

CITY OF WATAUGA, TEXAS
PRINCIPAL OFFICIALS AS OF SEPTEMBER 30, 2017

Elected Officials	Position	Term Expires
Hector Garcia	Mayor	2019
Patrick Shelbourne	Mayor Pro Tem, Council Member - Place 6	2018
Hal Gerhardt	Council Member - Place 1	2018
Brandon Krausse	Council Member - Place 2	2018
Lee Griffin	Council Member - Place 3	2019
James Wright	Council Member - Place 4	2019
Melva Clark	Council Member - Place 5	2019
Vacant	Council Member - Place 7	2018

Appointed Officials	Position
Greg Vick	City Manager
Mark G. Daniel	City Attorney
Zolaina Parker	City Secretary
Paul Hackleman	Public Works Director
Lana Ewell	Library Director
Sal Torres	Parks and Community Services Director
Robert Parker	Police Chief
Shawn Fannan	Fire Chief
Sandra Gibson	Director of Finance

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Watauga

Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2016

Christopher P. Morrill

Executive Director/CEO

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Watauga, Texas for its comprehensive annual financial report for the fiscal year ended September 30, 2016. The City of Watauga has received the Certificate of Achievement, which is a prestigious national award, for the last thirty-two consecutive years.

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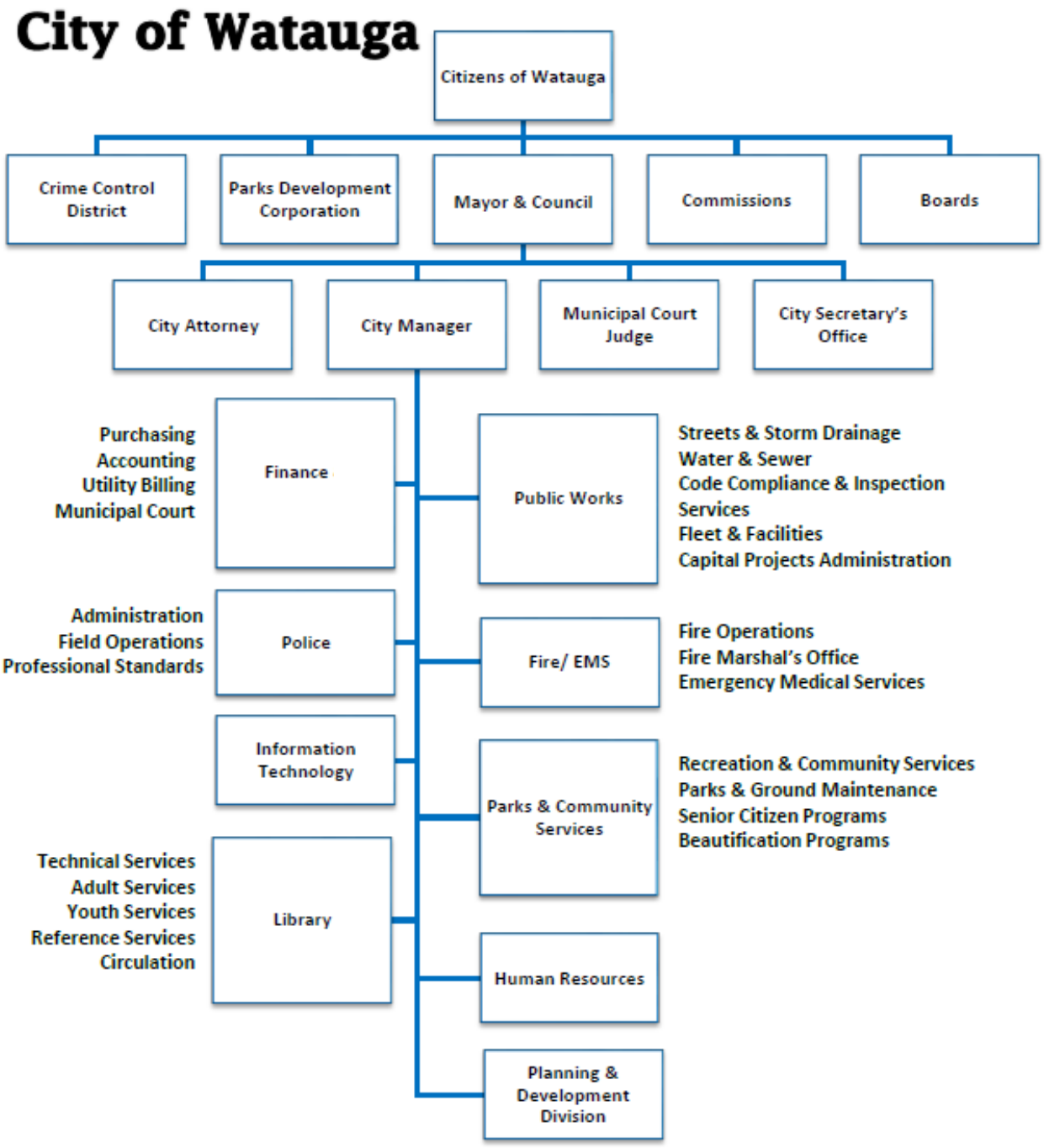
ORGANIZATIONAL CHART



FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor Pro Tem and
Members of City Council
City of Watauga, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Watauga, Texas (the "City") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the presentation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Honorable Mayor Pro Tem and
Members of City Council
City of Watauga, Texas

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watauga, Texas, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 11, pension information on pages 49 to 50, and budgetary comparison information on pages 51 to 52, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund statements and schedules are the responsibility of management and are derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The information in the introductory section and statistical section listed in the foregoing table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Whitley Penn LLP

Houston, Texas
February 16, 2018

On behalf of City Council, we, as management of the City of Watauga, offer readers of the City's financial statements this narrative overview and analysis of the financial activities and financial position of the City for the fiscal year ended September 30, 2017. In the broadest context, the financial well-being of a government lies in the underlying wealth and willingness of its citizens and property owners to pay adequate taxes combined with the vision of the government's elected and appointed leadership to spend those taxes strategically so that the City's tax base, service levels, City assets, and the City's desirability will be maintained not just for the current year but well into the future.

Financial reporting is limited in its ability to provide the "big picture" but rather focus on financial position and changes in financial position. In other words, are revenues and/or expenditures higher or lower than the previous year? Have net position or fund balances of the government been maintained? Readers are encouraged to consider the information presented here in conjunction with our Letter of Transmittal and the Statistical Section which can be found on pages i-vii and pages 73-93 of this report respectively. Also, you may review additional information on the annual budget and other community facts and figures on the City's website at www.cowtx.org.

Please note that the Report of Independent Auditors describes the auditor's association with the various sections of this report and that all of the additional information from the website and other City sources is unaudited.

Financial Highlights – See Tables 1-4 and Figures 1-2 in Appendices

- At September 30, 2017, Government-Wide Total Assets and Deferred Outflows of Resources exceeded Total Liabilities and Deferred Inflows of Resources by $71,053,994 (Net position). The vast majority of the City's net position of $60,881,667 (85.7%) is net investment in capital assets and that most capital assets in government do not directly generate revenue nor can they be sold to generate liquid capital. The net position for specific purposes totaled $498,538 (0.7%). The remaining $9,673,789 (13.6%) is unrestricted net position and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. Unrestricted net position increased $2,227,045 from the prior year.

- Governmental activities realized an increase in total net position of $682,134 and business-type activities realized an increase in total net position of $1,263,238 bringing the total increase in net position for the City to $1,945,372.

- Total Governmental Funds ending balance was $14,689,918, a decrease of $2,833,203 in comparison to the prior year. This was due primarily to construction projects completed during the fiscal year. The Unassigned General Fund balance is $4,490,902 or 37% of total General Fund expenditures.

- The City's total capital assets (net of accumulated depreciation) increased by $3,613,513 which is primarily attributed to completion of capital improvement projects and other asset additions exceeding current year depreciation expense and asset retirements.

- The City's total long-term debt increased by $5,403,009, or 18.3%, due to an issuance of Certificates of Obligation in the amount of $7,325,000 for capital improvements less scheduled principal payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

We intend this discussion and analysis to serve as an introduction to the City of Watauga's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Watauga's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Watauga that are 1) principally supported by taxes and intergovernmental revenues (governmental activities), and 2) functions that are intended to recover all or a significant portion of their costs through their user fees and charges (proprietary or business-type activities). The governmental activities of the City include General Government, Police, Fire/EMS, Culture and Recreation, and Public Works. The proprietary or business-type activities of the City include Water/Sewer and Drainage system activities.

The government-wide financial statements include not only the City of Watauga, itself (known as the primary government), but also include the Watauga Parks Development Corporation (WPDC) and the Watauga Crime Control and Prevention District (WCCPD), which are legally separate but financially accountable to the City. A blended presentation is used to report the financial information of these component units. The financial information for the individual component units is available from the City.

The government-wide financial statements can be found on pages 12 - 13 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: (1) governmental, (2) proprietary, and an (3) internal service.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains fifteen individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental funds Statement of Revenues, Expenditures

and Changes in Fund Balances for the General, and Debt Service funds, which are considered to be major funds. Data from the other thirteen governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget. Budgetary comparison schedules have been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

Proprietary Funds. The City maintains two major proprietary or enterprise funds. The enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water/Sewer and Drainage activities. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for some of its equipment replacement. Because these services predominately benefit governmental rather than business type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for Water/Sewer and Drainage, both of which are considered to be major funds of the City. The Internal Service Fund is a single presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 18-22 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-46 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required Supplementary Information (RSI) can be found on pages 49-52 of this report.

The combining statements referred to earlier in connection with non major governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and supporting schedules can be found on pages 56-69 of this report.

Government-Wide Financial Analysis

Total Assets of the City are $113,799,754. Capital assets, net of depreciation, represent the largest portion of the City's assets ($80,264,780, or 70.5%) and include land, buildings, improvements, equipment, infrastructure, and construction-in-progress. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

As noted earlier, Net Position may serve as a useful indicator of a government's financial position. As of September 30, 2017, the City of Watauga's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $71,053,994 (Net Position).

The City's Net Investment in Capital Assets is $60,881,667. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position is $498,538, or 0.7% of total net position, and represents resources that are subject to external restrictions on how they may be used. The remaining balance of total net position is unrestricted

($9,673,789 or 13.6%) and may be used to meet the government's ongoing obligations to citizens and creditors.

Overall, there was an increase of $1,945,372 in total net position during the fiscal year as a result of the City's operations. Governmental activities showed an increase of $682,134, while Business-type activities showed an increase of $1,263,238 as a result of the City's operations.

Table 1

Statement of Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current and other assets	$ 18,054,150	$ 20,417,837	$ 15,480,824	$ 9,804,999	$ 33,534,974	$ 30,222,836
Capital assets	48,070,644	46,338,528	32,194,136	30,312,739	80,264,780	76,651,267
Total Assets	66,124,794	66,756,365	47,674,960	40,117,738	113,799,754	106,874,103
Deferred outflows of resources	2,134,238	2,620,438	401,233	498,980	2,535,471	3,119,418
Long-term liabilities outstanding	24,038,210	26,059,005	17,404,704	10,364,237	41,442,914	36,423,242
Other liabilities	1,368,255	1,351,958	1,821,042	2,703,477	3,189,297	4,055,435
Total Liabilities	25,406,465	27,410,963	19,225,746	13,067,714	44,632,211	40,478,677
Deferred inflows of resources	546,349	341,756	102,671	64,466	649,020	406,222
Net position:						
Net investment in capital assets	36,839,508	36,945,402	24,042,159	24,344,617	60,881,667	61,290,019
Restricted	498,538	371,859	-	-	498,538	371,859
Unrestricted	4,968,172	4,306,823	4,705,617	3,139,921	9,673,789	7,446,744
Total Net Position	$ 42,306,218	$ 41,624,084	$ 28,747,776	$ 27,484,538	$ 71,053,994	$ 69,108,622

As of September 30, 2017, the City is able to report positive balances in all three categories of net position, for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental activities. Governmental activities total increase in net position was $682,134 or 1.6% increase from the prior year. Key elements of activity changes from the prior year are as follows:

- Total revenues increased by $718,508 or 4.3% from the prior year, while expenses increased by $122,159 or 0.7%.
- Transfers from Business-Type Activities increased by $62,798. Transfers in were sufficient to cover the expenses by $165,439.

Business-type activities. Business-type activities increased the City's net position by $1,263,238, or 4.6% increase from the prior year.

Significant changes from the prior year include:

- Increase in long term liabilities outstanding by $7,040,467, or 67.9% due to issuance of $7,325,000 in certificates of obligation during the fiscal year.
- Total revenues decreased by $376,893 due to a decrease in water consumption.
- Total expenses decreased by $275,502. This was due primarily to an decrease in water and sewer expenses of $299,465.

Table 2

Statement of Change in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues						
Fees, fines and charges for services	$ 2,998,767	$ 3,055,509	$ 9,626,419	$ 10,070,916	$ 12,625,186	$ 13,126,425
Operating grants and contributions	16,111	35,537	-	-	16,111	35,537
General revenue						
Property taxes	7,022,618	6,246,763	-	-	7,022,618	6,246,763
Sales taxes	5,814,302	5,868,069	-	-	5,814,302	5,868,069
Franchise taxes	1,003,842	1,114,190	-	-	1,003,842	1,114,190
Payment in lieu of taxes	457,222	370,897	-	-	457,222	370,897
Penalties and interest	39,561	32,295	-	-	39,561	32,295
Interest on investments	152,516	68,650	103,443	43,863	255,959	112,513
Miscellaneous revenue	9,439	3,960	8,154	130	17,593	4,090
Total Revenues	17,514,378	16,795,870	9,738,016	10,114,909	27,252,394	26,910,779
Expenses						
General government	3,486,528	6,107,863	-	-	3,486,528	6,107,863
Public safety	5,845,630	6,029,558	-	-	5,845,630	6,029,558
Culture and recreation	5,095,575	3,724,218	-	-	5,095,575	3,724,218
Public works	2,472,838	987,328	-	-	2,472,838	987,328
Interest on long-term debt	448,368	377,813	260,838	282,538	709,206	660,351
Water and sewer	-	-	6,718,776	7,018,241	6,718,776	7,018,241
Drainage Utility	-	-	978,469	932,806	978,469	932,806
Total Expenses	17,348,939	17,226,780	7,958,083	8,233,585	25,307,022	25,460,365
Increase (decrease) in net position before transfers	165,439	(430,910)	1,779,933	1,881,324	1,945,372	1,450,414
Transfers	516,695	453,897	(516,695)	(453,897)	-	-
Increase (decrease) in net position after transfers	682,134	22,987	1,263,238	1,427,427	1,945,372	1,450,414
Net position - beginning	41,624,084	41,601,097	27,484,538	26,057,111	69,108,622	67,658,208
Net position - ending	$ 42,306,218	$ 41,624,084	$ 28,747,776	$ 27,484,538	$ 71,053,994	$ 69,108,622

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Watauga's governmental funds reported a combined ending fund balance of $14,689,918, which is a decrease of $2,833,203 from the prior year. Unassigned fund balance is $4,490,902 or 31% of the total governmental fund balance. Unassigned fund balance is available for spending at the government's discretion. The remainder of fund balance is in the form of 1) non-spendable for inventories ($20,440) and prepaid items ($27,689), 2) restricted for capital acquisitions and contractual obligations ($5,919,345), retirement of fund indebtedness ($539,900), culture and recreation ($838,576), public works ($1,084,390) and public safety ($1,768,676).

The general fund is the primary operating fund of the City. The fund balance has decreased by a net $944,919 over the prior year, to $4,531,833. This was less than the budgeted decrease of $1,228,031 due to expenditures coming in less than budgeted for most departments.

The G.O. Debt Service fund balance increased by $141,884 over the prior year, to $537,076 as a result of a decrease in interest and other charges related to debt service.

Other Governmental Funds showed a $554,426 increase in fund balance from the prior year. This was primarily due to increase in revenue and decrease in expenditures in the Street Maintenance Sales Tax Fund.

Proprietary funds. The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the respective proprietary funds are Water/Sewer at $1,609,081 and Drainage Utility at $3,096,536. The proprietary funds had a combined net position increase of $1,263,238 as a result of operations. The Water/Sewer fund had an increase in the net position of $878,786, while the Drainage Utility fund had a net position increase of $394,046 as a result of operations. The adjustments for consolidation of the Internal Service fund included a loss of $9,594.

Budgetary Highlights

Actual total general fund expenditures were significantly under budget for FY 2017. There was an overall positive variance with final budget for the General Fund of $283,112. A major component in this positive variance was lower than forecasted expenditures of $590,645.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of September 30, 2017, amount to $80,264,780 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure and construction in progress. The total increase in the City's capital asset investment for the current fiscal year was 0.7%. This was primarily from purchase of new assets with proceeds from bonds issued during the prior fiscal years.

Major capital asset events during the fiscal year included the following:

- Projects that began in FY2017 that were added to Construction in Progress include the following:
    - Bursey Road, Phase II in the amount of $521,692
    - Whitley Road, Phase I, II in the amount of $798,901
    - The Green Ribbon Project, an initiative to improve and beautify the corridor along Highway 377 in the amount of $25,460
    - Starnes Road Water Main project in the amount of $20,680
    - Parks projects to include a splashpad and other parks projects such as the Capp Smith Park retaining wall in the amount of $34,792
- Projects than were continued in FY2017 from prior years and were not complete as of 9/30/2017 include:
    - Senior Center project increased by $1,845,868 bringing the total CIP for this project to $2,250,700.
    - Wastewater infrastructure improvements in the South part of the City continued this fiscal year and were near completion at the end of FY2017. The amount added to CIP this year is $1,586,227, bringing the total CIP for this project to $7,069,648.
    - Watauga Heights Drainage project increased by $186,752, bringing the total CIP for this project to $1,521,770.
- Projects that were included in Construction in Progress in FY2016 which were completed this fiscal year include the following:
    - Wastewater Improvements, Community Development Block Grant project in the amount of $236,467

- Other projects that were completed in FY2017 include:
  - Infrastructure improvements (street overlays, sidewalks) in the amount of $182,382
  - Chapman Road Street resurfacing project in the amount of $647,471
  - Parks projects to include a playground shade structure at Foster Village park and playground equipment at Birdville Park in the amount of $44,000 and sidewalk repairs at Capp Smith Park in the amount of $10,237
  - Continuation of Storm Drain Channel Improvement program in the amount of $16,819
  - Security enhancement updates City-wide in the amount of $187,349

Additional information on the City's capital assets can be found in Note 3 of this report.

Table 3

Statement of City of Watauga's Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	$ 19,019,600	$ 19,019,600	$ 91,000	$ 91,000	$ 19,110,600	$ 19,110,600
Construction in progress	3,338,105	521,804	8,937,551	6,753,473	12,275,656	7,275,277
Buildings and improvements	14,597,608	14,940,234	2,227,491	2,291,166	16,825,099	17,231,400
Improvements other than buildings	366,706	374,982	-	-	366,706	374,982
Equipment	3,381,729	3,616,449	744,400	858,740	4,126,129	4,475,189
Drainage improvements	-	-	7,657,685	7,976,357	7,657,685	7,976,357
Infrastructure	7,366,896	7,865,459	-	-	7,366,896	7,865,459
Waterworks and sanitary sewer system	-	-	12,536,009	12,342,003	12,536,009	12,342,003
Total Capital Assets	$ 48,070,644	$ 46,338,528	$ 32,194,136	$ 30,312,739	$ 80,264,780	$ 76,651,267

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of 18.3%. This entire amount comprises debt backed by the full faith and credit of the government.

Other debt includes owed to the City of North Richland Hills for the City's portion of a joint agreement on street repair, and $442,622 in Compensated Absences for employee earned, but unpaid, vacation and sick leave.

During the current fiscal year, the City's total debt increased by $34,912,611, which was mainly due to an issuance of Combination Tax and Limited Pledge Revenue Certificates of Obligations, Series 2017.

Additional information on the City's long-term debt can be found in Note 4.

Table 4

Statement of City of Watauga's Outstanding Debt

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General obligation bonds	$ 2,335,000	$ 3,045,000	$ 7,325,000	$ -	$ 9,660,000	$ 3,045,000
Certificates of obligation	13,195,000	14,120,000	8,090,000	8,595,000	21,285,000	22,715,000
Notes payable	442,622	502,847	-	-	442,622	502,847
Compensated absences payable	2,262,480	2,244,651	370,519	321,634	2,632,999	2,566,285
Unamortized bond premium	308,685	329,067	583,305	351,403	891,990	680,470
	$ 18,543,787	$ 20,241,565	$ 16,368,824	$ 9,268,037	$ 34,912,611	$ 29,509,602

Economic Factors and Next Year's Budgets and Rates

Over the last couple of years, the City has experienced growth in property valuations. In FY2016-17, the City's valuations have increased by 12.5% in comparison to FY2015-16. In FY2017-18, valuations increased by 9.5% from last year's valuations. This increase in valuations will allow the City to have operational funds for programs and cover operational increases without increasing the preceding year's tax rate. The tax rate for FY2017-18 was set at $0.601788 per $100 of assessed valuation, which is a $0.0166 decrease from last year's rate.

A significant portion of the city's general operating revenue is derived from sales tax. Over the past several years, the City has experienced a decrease in sales tax revenues. During FY2015-16 and FY2016-17, the City's sales tax revenues decreased by 8% cumulatively from FY2014-15 actuals. We are forecasting a decrease of 1.6% in the FY2017-18 budget compared to FY2016-17 budget. We believe this sales tax decline is attributable to retail growth in surrounding areas that negatively impacted the number of potential shoppers in our City. The City's Economic Development Division is continuing their efforts to bring in high quality visually appealing businesses, as well as revitalize and invest in areas that have seen some deterioration of economic activity. Efforts to maintain and grow our sales tax base continue to be a high priority.

Many capital improvement projects are underway in the City at this time. Several major water/wastewater system infrastructure projects are planned in the 5-year Capital Improvement Plan as well as significant improvements to our storm water drainage system. The Wastewater Phase I and Phase II projects are currently in progress and were near completion at the end of FY2016-17. In FY2016-17, the City issued new Utility Fund debt in the amount of $7.325 million to fund water and wastewater projects over the next several years.

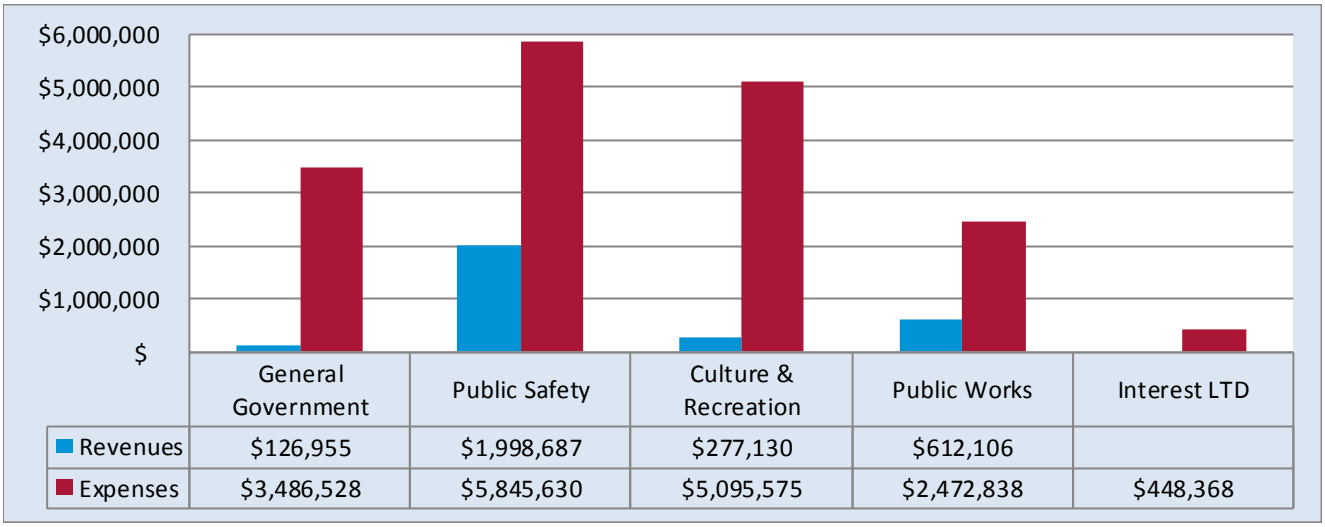
The 2014 and 2016 General Fund debt issuances provided funds for Bursey Road Phase I and II. Phase I was completed in FY2015-16 and Phase II began in the summer of 2017. The Senior Center expansion project that will better meet the needs of our citizens was near completion at the end of FY2016-17. The 2016 debt issuance also provides funding for other street and park projects. Quality of life projects such as a splash pad and trail system are being considered at this time.

Request for Information

The financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City's finances. If you have questions about this report or need additional information, contact the Finance Department, Attn: Sandra Gibson, CGFO, CGFM, Director of Finance and Administration by phone at 817-514-5822, or by email at sgibson@cowtx.org.

Figure 1

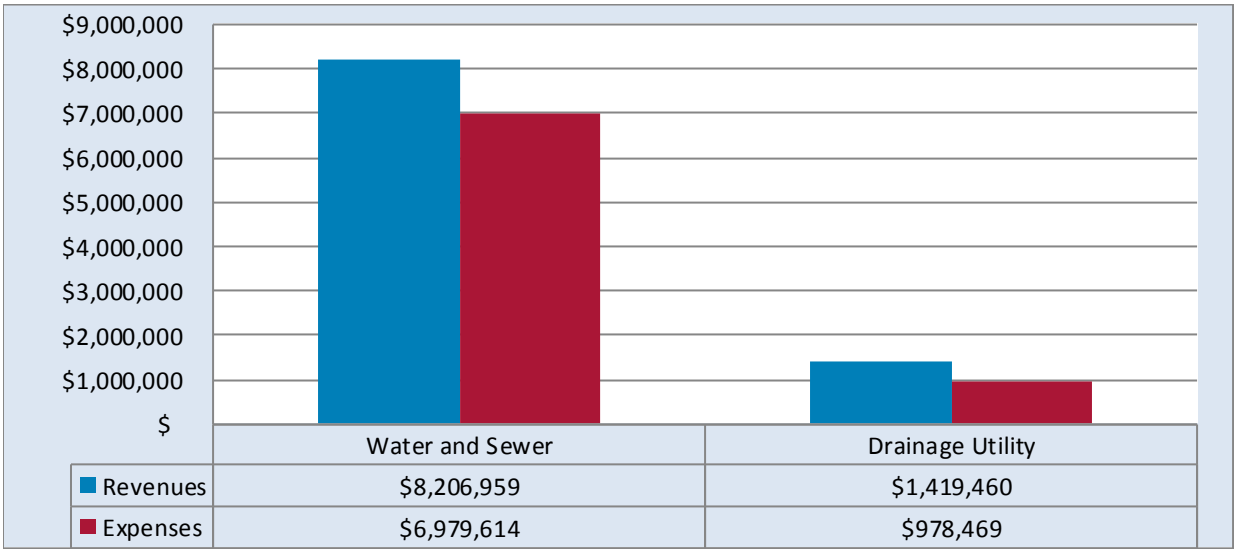
Revenues and Program Expenses – Governmental Activities



	General Government	Public Safety	Culture & Recreation	Public Works	Interest LTD
Revenues	$126,955	$1,998,687	$277,130	$612,106	
Expenses	$3,486,528	$5,845,630	$5,095,575	$2,472,838	$448,368

Figure 2

Revenues and Program Expenses – Business-Type Activities



	Water and Sewer	Drainage Utility
Revenues	$8,206,959	$1,419,460
Expenses	$6,979,614	$978,469

CITY OF WATAUGA, TEXAS
GOVERNMENT WIDE - STATEMENT OF NET POSITION
September 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 5,292,123	$ 2,267,380	$ 7,559,503
Investments	11,059,973	11,292,733	22,352,706
Receivables, net of allowance for uncollectibles	1,653,925	1,868,272	3,522,197
Inventories	20,440	52,124	72,564
Prepaid items	27,689	315	28,004
Capital assets:			
Land	19,019,600	91,000	19,110,600
Buildings and improvements	14,597,608	2,227,491	16,825,099
Improvements other than buildings	366,706	-	366,706
Equipment	3,381,729	744,400	4,126,129
Drainage improvements	-	7,657,685	7,657,685
Infrastructure	7,366,896	-	7,366,896
Waterworks and sanitary sewer system	-	12,536,009	12,536,009
Construction in progress	3,338,105	8,937,551	12,275,656
Total Capital Assets	48,070,644	32,194,136	80,264,780
Total Assets	66,124,794	47,674,960	113,799,754
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension	2,134,238	401,233	2,535,471
Total deferred outflows of resources	2,134,238	401,233	2,535,471
LIABILITIES			
Accounts payable	598,179	374,123	972,302
Accrued liabilities	664,923	445,346	1,110,269
Accrued interest	83,550	74,647	158,197
Customer deposits	21,603	926,926	948,529
Long-term liabilities:			
Due within one year	1,812,495	807,191	2,619,686
Due in more than one year	16,731,292	15,561,633	32,292,925
Net pension liability	5,494,423	1,035,880	6,530,303
Total Liabilities	25,406,465	19,225,746	44,632,211
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension	546,349	102,671	649,020
Total deferred outflows of resources	546,349	102,671	649,020
NET POSITION			
Net investment in capital assets	36,839,508	24,042,159	60,881,667
Restricted for:			
Debt service	498,538	-	498,538
Unrestricted	4,968,172	4,705,617	9,673,789
Total Net Position	$ 42,306,218	$ 28,747,776	$ 71,053,994

The Notes to the Basic Financial Statements
are an integral part of this statement.

CITY OF WATAUGA, TEXAS
GOVERNMENT WIDE - STATEMENT OF ACTIVITIES
Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Primary Government: Business-Type Activities	Net (Expense) Revenue and Changes in Net Position: Primary Government: Total
Primary government						
Governmental activities						
General government	$ 3,486,528	$ 126,955	$ -	$ (3,359,573)	$ -	$ (3,359,573)
Public safety	5,845,630	1,998,687	-	(3,846,943)	-	(3,846,943)
Culture and recreation	5,095,575	261,019	16,111	(4,818,445)	-	(4,818,445)
Public works	2,472,838	612,106	-	(1,860,732)	-	(1,860,732)
Interest on long-term debt	448,368	-	-	(448,368)	-	(448,368)
Total governmental activities	17,348,939	2,998,767	16,111	(14,334,061)	-	(14,334,061)
Business-type activities:						
Water and Sewer	6,979,614	8,206,959	-	-	1,227,345	1,227,345
Drainage Utility	978,469	1,419,460	-	-	440,991	440,991
Total business-type activities	7,958,083	9,626,419	-	-	1,668,336	1,668,336
Total primary government	$ 25,307,022	$ 12,625,186	$ 16,111	(14,334,061)	1,668,336	(12,665,725)
General revenues:						
Taxes:						
Property taxes, levied for general purposes				7,022,618	-	7,022,618
Sales taxes				5,814,302	-	5,814,302
Franchise taxes				1,003,842	-	1,003,842
Payment in lieu of taxes				457,222	-	457,222
Penalties and interest				39,561	-	39,561
Interest on investments				152,516	103,443	255,959
Miscellaneous revenue				9,439	8,154	17,593
Transfers				516,695	(516,695)	-
Total general revenues and transfers				15,016,195	(405,098)	14,611,097
Change in net position				682,134	1,263,238	1,945,372
Net position - beginning				41,624,084	27,484,538	69,108,622
Net position - ending				$ 42,306,218	$ 28,747,776	$ 71,053,994

The Notes to the Basic Financial Statements
are an integral part of this statement.

CITY OF WATAUGA, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2017

	General Fund	G.O. Debt Service Fund	G.O. Capital Projects Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 2,043,456	$ 416,639	$ 219,958	$ 1,912,974	$ 4,593,027
Investments	2,376,805	120,437	5,396,877	2,186,110	10,080,229
Receivables, net of allowance for uncollectibles					
Property taxes	96,556	42,188	5,840	-	144,584
Accounts receivable	1,022,686	-	-	484,237	1,506,923
Prepaids and deposits	20,491	-	-	7,198	27,689
Inventory of supplies	20,440	-	-	-	20,440
Total Assets	$ 5,580,434	$ 579,264	$ 5,622,675	$ 4,590,519	$ 16,372,892
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 117,959	$ -	$ 91,762	$ 388,457	$ 598,178
Accrued liabilities	512,413	-	41,960	70,006	624,379
Deposits	21,603	-	-	-	21,603
Unearned revenue	40,544	-	-	-	40,544
Total Liabilities	692,519	-	133,722	458,463	1,284,704
Deferred Inflows of Resources					
Unavailable revenue - Property Taxes	96,556	42,188	-	-	138,744
Unavailable revenue - EMS	259,526	-	-	-	259,526
Total Deferred Inflows of Resources	356,082	42,188	-	-	398,270
Fund balances:					
Non-Spendable					
Inventories	20,440	-	-	-	20,440
Prepaid items	20,491	-	-	7,198	27,689
Restricted					
Capital acquisitions and contractual obligations	-	-	5,488,953	430,392	5,919,345
Debt service	-	537,076	-	2,824	539,900
Culture and recreation	-	-	-	838,576	838,576
Public works	-	-	-	1,084,390	1,084,390
Public safety	-	-	-	1,768,676	1,768,676
Unassigned	4,490,902	-	-	-	4,490,902
Total Fund balances	4,531,833	537,076	5,488,953	4,132,056	14,689,918
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 5,580,434	$ 579,264	$ 5,622,675	$ 4,590,519	$ 16,372,892

The Notes to the Basic Financial Statements
are an integral part of this statement.

CITY OF WATAUGA, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
September 30, 2017

Total fund balance - governmental funds	$	14,689,918
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.		48,070,644
Deferred outflows related to Texas Municipal Retirement System		2,134,238
Interest payable on long-term debt does not require current financial resources; therefore, interest payable is not reported as a liability in the governmental funds balance sheet.		(83,551)
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.		398,270
Deferred inflows related to Texas Municipal Retirement System		(546,349)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the fund financial statements. Long-term liabilities at year-end consist of:		
General obligation bonds		(2,335,000)
Certificate of obligations		(13,195,000)
Premiums on issuance		(308,685)
Notes payable		(442,622)
Compensated absences		(2,262,480)
Net pension liablity		(5,494,423)
Internal service funds are used by management to charge the cost of certain activities, such as fleet management, to individual funds. The net position of the internal service fund is net of the amount allocated to business-type activities, deferred charges, capital assets and long-term liabilities.		1,681,258
Net position of governmental activities	$	42,306,218

The Notes to the Basic Financial Statements
are an integral part of this statement.

CITY OF WATAUGA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended September 30, 2017

	General Fund	G.O. Debt Service Fund	G.O. Capital Projects Fund	Non Major Governmental Funds	Total Governmental Funds
Revenues					
Taxes and franchise fees	$ 8,768,940	$ 2,224,329	$ -	$ 2,874,068	$ 13,867,337
Licenses and permits	428,530	-	-	-	428,530
Charges for services	745,127	-	-	-	745,127
Fines and forfeitures	630,736	-	-	891,853	1,522,589
Interest income	62,173	4,536	44,047	28,481	139,237
Intergovernmental	457,222	-	-	-	457,222
Miscellaneous	217,711	-	-	96,562	314,273
Total Revenues	11,310,439	2,228,865	44,047	3,890,964	17,474,315
Expenditures					
Current:					
General government	6,237,870	-	-	-	6,237,870
Public safety	3,308,285	-	-	2,075,113	5,383,398
Culture and recreation	1,502,348	-	-	612,045	2,114,393
Public works	1,077,528	-	-	87,498	1,165,026
Capital outlay	-	-	2,915,788	503,935	3,419,723
Debt Service:					
Principal	-	1,635,000	60,225	-	1,695,225
Interest and other charges	-	451,981	22,628	-	474,609
Total Expenditures	12,126,031	2,086,981	2,998,641	3,278,591	20,490,244
Excess (deficiency) of revenues over expenditures	(815,592)	141,884	(2,954,594)	612,373	(3,015,929)
Other Financing Sources (Uses)					
Proceeds from sale of assets	8,880	-	-	7,151	16,031
Transfers in	522,793	-	370,000	-	892,793
Transfers out	(661,000)	-	-	(65,098)	(726,098)
Total other financing sources and uses	(129,327)	-	370,000	(57,947)	182,726
Net change in fund balances	(944,919)	141,884	(2,584,594)	554,426	(2,833,203)
Fund balances - beginning	5,476,752	395,192	8,073,547	3,577,630	17,523,121
Fund balances - ending	$ 4,531,833	$ 537,076	$ 5,488,953	$ 4,132,056	$ 14,689,918

The Notes to the Basic Financial Statements
are an integral part of this statement.

CITY OF WATAUGA, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2017

Net change in fund balances - total governmental funds	$	(2,833,203)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report outlays for capital assets as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.		3,889,731
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.		(2,200,673)
Governmental funds report the entire net sales price (proceeds) from the sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the asset. Thus, the change in net position differs from the change in fund balance by the book value of the assets sold and disposed.		(6,592)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assts. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		1,689,913
Current year changes in long-term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.		(17,829)
Pension contributions made after the pension liability date are reported as expenditures in the governmental funds and are reported as deferred outflows on the face of the statement of net position		1,039,501
Accrued interest is not reported in the fund financial statements and the change is reported in the statement of activities		(20,154)
Certain unavailable revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.		17,346
Pension expense for the pension plan measurement year		(1,381,583)
Internal service funds are used by management to charge the costs of certain activities, such as fleet management, to individual funds. The net revenue of the internal service funds is reported with business-type activities.		505,677
Change in net position of governmental activities	$	682,134

The Notes to the Basic Financial Statements
are an integral part of this statement.

CITY OF WATAUGA, TEXAS
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
September 30, 2017

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Drainage Utility	Total Enterprise Funds	
ASSETS				
Current assets				
Cash and cash equivalents	$ 808,757	$ 1,458,623	$ 2,267,380	$ 699,096
Investments	9,392,459	1,900,274	11,292,733	979,744
Accounts receivable and unbilled revenue less allowance for uncollectibles of $728,581 for water and sewer, and $33,866 for drainage utility	1,786,559	81,713	1,868,272	2,418
Inventories	52,124	-	52,124	-
Prepaid items	315	-	315	-
Total current assets	12,040,214	3,440,610	15,480,824	1,681,258
Non-current assets:				
Capital Assets:				
Land	91,000	-	91,000	-
Construction in Progress	7,382,519	1,555,032	8,937,551	-
Buildings	3,246,847	106,931	3,353,778	154,068
Equipment	1,527,360	88,014	1,615,374	2,803,869
Street improvements	-	70,991	70,991	-
Drainage improvements	-	16,741,084	16,741,084	-
Waterworks and sanitary sewer system	16,703,935	-	16,703,935	-
	28,951,661	18,562,052	47,513,713	2,957,937
Less Accumulated depreciation	(6,270,679)	(9,231,157)	(15,501,836)	(1,862,006)
Net utility plant and equipment in service	22,680,982	9,330,895	32,011,877	1,095,931
Total noncurrent assets	22,680,982	9,330,895	32,011,877	1,095,931
Total assets	34,721,196	12,771,505	47,492,701	2,777,189
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	314,582	86,651	401,233	-
Total deferred outflows	314,582	86,651	401,233	-

The Notes to the Basic Financial Statements
are an integral part of this statement.

CITY OF WATAUGA, TEXAS
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
September 30, 2017

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Drainage Utility	Total Enterprise Funds	
LIABILITIES				
Current liabilities				
Payable from current assets				
Accounts payable	$ 370,955	$ 3,168	$ 374,123	$ -
Accrued liabilities	364,080	81,266	445,346	-
Current portion of compensated absences	33,076	5,793	38,869	-
Current portion of bonds payable	505,000	-	505,000	-
Deposits	926,926	-	926,926	-
Accrued interest	74,647	-	74,647	-
Total current liabilities	2,274,684	90,227	2,364,911	-
Noncurrent liabilities:				
Bonds payable	15,493,305	-	15,493,305	-
Compensated absences	246,604	85,046	331,650	-
Net pension liability	802,696	233,184	1,035,880	-
Total non-current liabilities	16,542,605	318,230	16,860,835	-
Total liabilities	18,817,289	408,457	19,225,746	-
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	80,403	22,268	102,671	-
Total deferred outflows	80,403	22,268	102,671	-
NET POSITION				
Net investment in capital assets	14,529,005	9,330,895	23,859,900	1,095,931
Unrestricted	1,609,081	3,096,536	4,705,617	1,681,258
Total Net Position	$ 16,138,086	$ 12,427,431	28,565,517	$ 2,777,189
Reconciliation to government-wide statement of net position				
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			182,259	
Net position of business-type activities			$ 28,747,776	

The Notes to the Basic Financial Statements
are an integral part of this statement.

CITY OF WATAUGA, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended September 30, 2017

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Water and Sewer	Drainage Utility	Total Enterprise Funds	
Operating revenues				
Water service	$ 4,239,099	$ -	$ 4,239,099	$ -
Sewer service	3,397,237	-	3,397,237	-
Drainage fees	-	1,419,460	1,419,460	-
Service fees and miscellaneous	570,627	-	570,627	294,336
Total operating revenues	8,206,963	1,419,460	9,626,423	294,336
Operating expenses				
General and administrative	152,902	2,966	155,868	-
Wastewater treatment	1,925,085	-	1,925,085	-
Water distribution	2,206,317	-	2,206,317	-
Personnel services	1,086,598	439,263	1,525,861	-
Nondepartmental	658,915	123,683	782,598	-
Billing and collections	62,288	-	62,288	-
Supplies	-	23,375	23,375	-
Repairs and maintenance	100,955	10,167	111,122	-
Contractual services	-	30,291	30,291	
Depreciation and amortization	403,020	348,724	751,744	161,531
Total operating expenses	6,596,080	978,469	7,574,549	161,531
Operating income (loss)	1,610,883	440,991	2,051,874	132,805
Non-operating revenues (expenses)				
Investment income	78,565	24,878	103,443	13,279
Gain (loss) on disposal of capital assets	-	8,150	8,150	-
General and Administrative				
Bond Issuance Costs	(86,913)	-	(86,913)	-
Interest expense	(287,027)	-	(287,027)	-
Total Non-operating revenue (expenses), net	(295,375)	33,028	(262,347)	13,279
Income (loss) before transfers	1,315,508	474,019	1,789,527	146,084
Transfers in	-	-	-	350,000
Transfers out	(436,722)	(79,973)	(516,695)	-
Change in net position	878,786	394,046	1,272,832	496,084
Total net position - beginning of the year	15,259,300	12,033,385		2,281,105
Total net position - ending of the year	$ 16,138,086	$ 12,427,431		$ 2,777,189
Reconciliation to government-wide statement of net position				
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(9,594)	
Change in net position of business-type activities			$ 1,263,238	

The Notes to the Basic Financial Statements
are an integral part of this statement.

CITY OF WATAUGA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended September 30, 2017

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Water and Sewer	Drainage Utility	Total Enterprise Funds	
OPERATING ACTIVITIES				
Cash received from customers	$ 8,045,918	1,426,314	$ 9,472,232	$ 295,613
Cash payments to suppliers for goods and services	(5,304,650)	(632,424)	(5,937,074)	-
Cash payments to employees for services	(1,302,043)	(403,471)	(1,705,514)	-
Net cash provided by operating activities	1,439,225	390,419	1,829,644	295,613
NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	-	-	-	350,000
Transfers to other funds	(436,722)	(79,973)	(516,695)	-
Net cash provided by (used by) noncapital financing activities	(436,722)	(79,973)	(516,695)	350,000
CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from the sale of equipment	-	8,150	8,150	-
Purchase of capital assets	(2,356,938)	(236,833)	(2,593,771)	(201,587)
Repayment of debt	(505,000)	-	(505,000)	-
Bond issuance costs	(86,912)		(86,912)	
Net Proceeds from issuance of debt	7,594,848	-	7,594,848	-
Interest paid on debt	(234,643)	-	(234,643)	-
Net cash provided by (used by) capital and related financing activities	4,411,355	(228,683)	4,182,672	(201,587)
INVESTING ACTIVITIES				
Investment income	78,565	24,878	103,443	13,279
Purchase of investments	(5,101,523)	(95,894)	(5,197,417)	(125,510)
Net cash (used by) investing activities	(5,022,958)	(71,016)	(5,093,974)	(112,231)
Net change in cash and cash equivalents	390,900	10,747	401,647	331,795
Cash and equivalents, beginning of year	417,857	1,447,876	1,865,733	367,301
Cash and equivalents, at end of year	$ 808,757	$ 1,458,623	$ 2,267,380	$ 699,096
Unrestricted cash and equivalents	$ 808,757	$ 1,458,623	$ 2,267,380	$ 699,096
	$ 808,757	$ 1,458,623	$ 2,267,380	$ 699,096

The Notes to the Basic Financial Statements
are an integral part of this statement.

CITY OF WATAUGA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended September 30, 2017
(continued)

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Water and Sewer	Drainage Utility	Total Enterprise Funds	
Reconciliation of operating income to net cash provided by operating activities				
Operating income	$ 1,610,883	$ 440,991	$ 2,051,874	$ 132,805
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	403,020	348,724	751,744	161,531
(Increase) decrease in accounts receivable and unbilled revenue	(181,337)	6,854	(174,483)	1,277
(Increase) decrease in prepaids items	2,700	-	2,700	-
(Increase) decrease in deferred outflows - pensions	80,541	17,206	97,747	-
(increase) decrease in inventory	8,110	-	8,110	-
Increase (decrease) in deferred inflows - pension	30,561	7,644	38,205	-
Increase (decrease) in accounts payable	(616,967)	(441,942)	(1,058,909)	-
Increase (decrease) in accrued liabilities	90,195	13,603	103,798	-
Increase (decrease) in net pension liability	(48,251)	(12,069)	(60,320)	
Increase (decrease) in compensated absences	39,478	9,408	48,886	-
Increase (decrease) in deposits	20,292	-	20,292	-
Net cash provided by operating activities	$ 1,439,225	$ 390,419	$ 1,829,644	$ 295,613
Reconciliation of cash to balance sheet				
Cash - current	$ 808,757	$ 1,458,623	$ 2,267,380	$ 699,096
Cash and cash equivalents	$ 808,757	$ 1,458,623	$ 2,267,380	$ 699,096

The Notes to the Basic Financial Statements
are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Watauga (the City) Home Rule Charter was adopted by the voters at an election held on January 19, 1980 and amended January 19, 1985, August 8, 1987, August 11, 1990, January 15, 1994, August 10, 1996, August 8, 1998, September 14, 2002, May 7, 2005, November 6, 2007 and May 11, 2013. The City operates under a Mayor-Council-Manager form of government. The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments.

The City prepares its basic financial statements in conformity with U.S. generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in *Statement on Auditing Standards No. 69*, as amended by *Statement on Auditing Standards No.'s 91 and 93* of the American Institute of Certified Public Accountants.

Financial Reporting Entity

The basic financial statements of the City include the primary government organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

The following entities were found to be component units of the City and are included in the basic financial statements:

The Watauga Parks Development Corporation's (WPDC) sole purpose is to act on behalf of the City in the accumulation and use of resources to build and improve City parks. The WPDC's governing board is appointed by the City Council. The WPDC is composed of three funds: a special revenue fund, a capital projects fund and a debt service fund.

The Watauga Crime Control and Prevention District Fund's (WCCPD) sole purpose is to act on behalf of the City in the accumulation and use of resources to add law enforcement officers and purchase additional equipment and supplies for law enforcement purposes. The WCCPD is reported as a special revenue fund.

A blended presentation has been used to report the financial information of these component units. The financial information for the individual component units is available from the City.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the City as a whole. These statements include all activities of the primary government and its component units. For the most part the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

General Obligation Debt Service Fund

The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is restricted exclusively for debt service expenditures.

General Obligation Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment. Financing is provided primarily by the sale of tax notes, general obligation and contractual obligation bonds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary funds:

Water and Sewer Fund

The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly, at least annually, and adjusted if necessary to ensure integrity of the funds.

Drainage Utility Fund

The Drainage Utility Fund is used to account for the user fees charged per residential and commercial unit to enhance drainage of properties within the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations and maintenance.

Additionally, the City reports the Internal Service Fund, which was established in 1997 for the purpose of replacing equipment. Departments are charged user fees to accumulate funds to be used in replacing existing equipment as needed.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services, which are accrued. Expenses are recognized at the time the liability is incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

Deposits and Investments

Substantially all operating cash, deposits, and short-term investments are maintained in consolidated cash accounts or individual fund investment accounts. Related interest income is allocated to the various funds based primarily on ownership by each fund of specific investments. Cash equivalents consist of highly-liquid investments with original maturities of three months or less.

For purposes of the statement of cash flows, the City considers all highly liquid investments to be cash equivalents.

Certificates of Deposit are reported at cost plus accrued interest. All other investments are reported at fair value.

State statutes authorize the City to invest in obligations of the U.S. Government or its agencies; obligations of the State of Texas or its agencies; and certain other obligations, repurchase agreements, money market mutual funds, and certificates of deposits within established criterion.

Taxes

Property taxes are levied for appropriation for the fiscal year beginning on October 1, are due October 1, attach as an enforceable lien on property as of January 1, and become delinquent on February 1. Property taxes are accrued based on the period for which they are levied and available. Delinquent taxes estimated not to be available are treated as deferred revenue in the governmental fund financial statements. Property taxes for cities, including those applicable to debt service, are limited by the Texas Constitution to $2.50 per $100 of assessed valuation. The City's current tax rate is $0.618411 per $100 of assessed valuation ($0.618718 per $100 last year) and assessed valuation is approximately 100% of estimated value.

Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year.

Inventories

Inventories, which are recognized as expenditures as they are consumed, are stated at cost (first-in, first-out method). Inventories consist primarily of expendable supplies.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interfund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized, not including infrastructure assets, have an original cost of $5,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	50 years
Improvements other than buildings	10 years
Equipment	3-10 years
Drainage Improvements	50 years
Infrastructure	9-50 years
Waterworks and sanitary sewer system	60 years

Compensated Absences

City employees are granted vacation, sick and other compensated time pay in varying amounts. In the event of termination, an employee hired before 10/1/2013 is reimbursed for accumulated unused vacation days up to a maximum of 60 days, or an employee hired after 10/1/2013 is reimbursed for accumulated unused vacation days up to a maximum of 30 days if the employee has completed their probationary period of six months for a non-civil service employee or at least one year for civil service employees. Employees hired before 10/1/2013 are reimbursed up to 100% of 90 days for accumulated sick leave. Non-civil service employees hired after 10/1/2013 are no longer reimbursed for unpaid sick leave. The total liability for compensated absences at September 30, 2017 was $2,632,999, including $370,519 of proprietary fund balances which are included with accrued liabilities on the proprietary fund balance sheet.

The estimated vacation liability expected to be satisfied with available financial resources is included in accrued salaries and wages in the General Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows/Inflows of Resources

Deferred outflows and inflows of resources are reported in the statement of net position as described below:

A *deferred outflow of resources* is a consumption of a government's net assets (a decrease in assets excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The City has two items that qualify for reporting in this category:

- Deferred outflows of resources for refunding – Reported in the government-wide statement of net position, the deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

- Deferred outflows of resources for pension – Reported in the government-wide statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between projected and actual earnings on pension plan investments. The deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related outflow will be amortized over a closed five year period.

A *deferred inflow of resources* is an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The City has two items that qualify for this category:

- Deferred inflows of resources for unavailable revenues – Reported in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

- Deferred inflows of resources for pension – Reported in the government-wide statement of net position, these deferred inflows result primarily from differences between expected and actual experience. These amounts will be amortized over the expected remaining service lives of all employees (active and inactive employees) who are provided with pension through the pension plan, which is currently 3.78 years.

Fund Equity

The City reports fund balances in accordance with GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Equity (continued)

Non-spendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, the inventory and prepaid items have been properly classified in the Governmental Funds Balance Sheet.

Restricted fund balance - amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. Restrictions for capital acquisitions and contractual obligations, retirement of fund indebtedness and other state restrictions have been properly classified in the Governmental Funds Balance Sheet.

Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. the City Council). To be reported as committed, amounts cannot be used for any other purposes unless the City takes the same highest level of action to remove or change the constraint.

Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City or by an official or body to which the City Council delegates the authority. Per the City's fund balance policy, assigned fund balance amounts are established by the City Manager.

Unassigned fund balance – amounts that are available for any purpose.

Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

The City establishes (and modifies and rescinds) fund balance commitments by passage of a resolution by City Council.

When multiple categories of fund balance are available for expenditure, the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

Net Position

Net position represent the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. The City's net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first.

Encumbrances

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Since under Texas law, appropriations lapse at fiscal year end, outstanding encumbrances are appropriately provided for in the subsequent years' budget to provide for the liquidation of the prior commitments. As of September 30, 2017, the City had no encumbrances in the General Fund that rolled over into the new fiscal year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Implementation of New Accounting Standards

In the current fiscal year, the City implemented the following new accounting standards:

GASB Statement No. 77, *Tax Abatement Disclosures,* establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements. The City has no tax abatements that would require disclosures.

GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, 68 and 73,* this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

NOTE 2 - DEPOSITS (CASH) AND INVESTMENTS

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity, allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes and the City's investment policy authorized the City to invest in the following investments as summarized in the following table:

Authorized Investment Type	Final Stated Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Public funds investment pool	N/A	100%	None
Certificates of deposit	5 years	100%	None
U.S. Treasury obligations	5 years	100%	None
No-load money market mutual funds	5 years	50%	None
Repurchase agreements	5 years	50%	None
State of Texas securities	5 years	50%	None
U.S. agency obligations	5 years	50%	None
Commercial paper	5 years	10%	None

NOTE 2 - DEPOSITS (CASH) AND INVESTMENTS (continued)

The act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Deposits and investments as of September 30, 2017, are classified in the accompanying financial statements as follows:

Governmental Activities	$	16,352,096
Business Type Activities		13,560,113
	$	29,912,209

Deposits and investments as of September 30, 2017, consist of the following:

Deposits with financial institutions	$	666,449
Investments		29,245,760
	$	29,912,209

For the purposes of the statement of cash flows, the City considers all highly liquid investments with maturities at the date of purchase of three months or less to be cash equivalents.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 365 days thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

As of September 30, 2017, the City had the following investments:

Investment Type	Carrying Value	Weighted Average Maturity
TexPool	$ 2,515,397	34 days
TexPool Prime	506,752	51 days
TexasTerm	449,091	37 days
LOGIC	344,594	40 days
Money Market	13,856,496	Daily
CDs	11,573,430	31 Days
	$ 29,245,760	

$1,089,003 of the investments listed above is in a joint use facility fund with the City of North Richland Hills. The funds are to be used to maintain a water and sewer transfer station.

As of September 30, 2017, the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

NOTE 2 - DEPOSITS (CASH) AND INVESTMENTS (continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy or debt agreements and the actual rating as of year-end for each investment type.

Investment Type	Carrying Value	Minimum Rating Required	Actual Investment Rating
TexPool	$ 2,515,397	AAA	AAAm
TexPool Prime	506,752	AAA	AAAm
Texas Term	449,091	AAA	AAAm
LOGIC	344,594	AAA	AAAm
Money Market	13,856,496	N/A	N/A
CDs	11,573,430	N/A	N/A
	$ 29,245,760		

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2017, other than external investment pools and securities guaranteed by the United States Government, the City did not have 5% or more of its investments with one issuer.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance of $250,000 at all times.

At September 30, 2017, the carrying amount of the City's cash on hand and deposits was $666,449 and the bank balance was $2,150,026. Of the bank balance, $250,000 was covered by federal depository insurance while the remaining $1,900,026 was secured with securities held by the pledging financial institution's trust department or agent in the City's name.

The City is a voluntary participant in the TexPool, LOGIC and Texas Term external investment pools.

The State Comptroller of Public Accounts exercises responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool operates in a manner consistent with the SEC's Rule2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool Shares.

NOTE 2 - DEPOSITS (CASH) AND INVESTMENTS (continued)

Custodial Credit Risk (continued)

LOGIC is governed by a six member board and is an AAA-rated investment program tailored to the investment needs of local governments within the state of Texas and is administered by First Southwest Asset Management, Inc. and JPMorgan Chase. LOGIC assists governments across Texas making the most of taxpayer dollars by allowing local officials to improve the return on their invested balances by pooling their money with other entities to achieve economies of scale in a conservative fund. LOGIC is a 'Constant Dollar" net asset value pool and is in full compliance with the Texas Public Funds Investment Act.

Texas Term is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. A seven-member advisory board governs the Pool. As required by the Public Funds Investment Act, the Advisory Board is composed of participants in the Pool and other persons who do not have a business relationship with the Pool. Under agreement with the Texas Term Advisory Board, PFM Asset Management LLC provides administrative and investment services to the pool. The Pool purchases only investments of the type in which Texas local governments are permitted to invest their own funds. The fair value of the position in Texas Term is the same as the value of Texas Term shares.

The City's external pooled funds are reported at amortized cost as permitted by GASB Statement No. 79, *Certain External Investment Pools and Pool Participants.* Amortized cost for the investment pools approximates fair value. In addition, The City's investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. The pools do not impose any liquidity fees or redemption gates.

Market values of money market accounts and certificates of deposit are based on quoted market values using Level 2 inputs.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017, was as follows:

	Balance September 30, 2016	Additions	Retirements/ Transfers	Balance September 30, 2017
Governmental activities				
Capital assets not being depreciated				
Land	$ 19,019,600	$ -	$ -	$ 19,019,600
Construction in progress	521,804	2,818,801	(2,500)	3,338,105
Total capital assets not being depreciated	19,541,404	2,818,801	(2,500)	22,357,705
Capital assets being depreciated				
Buildings and improvements	19,435,063	-	-	19,435,063
Improvements other than buildings	413,778	-	-	413,778
Equipment	11,937,601	452,769	(312,907)	12,077,463
Infrastructure	29,510,538	634,718	-	30,145,256
Total capital assets being depreciated	61,296,980	1,087,487	(312,907)	62,071,560
Less accumulated depreciation				
Buildings and improvements	4,494,829	342,626	-	4,837,455
Improvements other than buildings	38,796	8,276	-	47,072
Equipment	8,321,152	683,397	(308,815)	8,695,734
Infrastructure	21,645,079	1,133,281	-	22,778,360
Total accumulated depreciation	34,499,856	2,167,580	(308,815)	36,358,621
Total capital assets being depreciated, net	26,797,124	(1,080,093)	(4,092)	25,712,939
Governmental activities capital assets, net	$ 46,338,528	$ 1,738,708	$ (6,592)	$ 48,070,644

NOTE 3 - CAPITAL ASSETS (continued

	Balance September 30, 2016	Additions	Retirements/ Transfers	Balance September 30, 2017
Business-Type Activities				
Capital assets not being depreciated				
Land	$ 91,000	$ -	$ -	$ 91,000
Construction in progress	6,753,473	2,391,100	(207,022)	8,937,551
Total capital assets not being depreciated	6,844,473	2,391,100	(207,022)	9,028,551
Capital assets being depreciated				
Buildings and improvements	3,353,778	-	-	3,353,778
Equipment	1,952,652	19,064	(51,487)	1,920,229
Street and drainage improvements	16,795,256	16,819	-	16,812,075
Waterworks and sewer system	16,262,096	234,817	207,022	16,703,935
Total capital assets being depreciated	38,363,782	270,700	155,535	38,790,017
Less accumulated depreciation for				
Buildings and improvements	1,062,612	63,675	-	1,126,287
Equipment	1,093,912	133,404	(51,487)	1,175,829
Street and drainage improvements	8,818,899	335,491	-	9,154,390
Waterworks and sewer system	3,920,093	247,833	-	4,167,926
Total accumulated depreciation	14,895,516	780,403	(51,487)	15,624,432
Total capital assets being depreciated, net	23,468,266	(509,703)	207,022	23,165,585
Business-type activities				
capital assets, net	$ 30,312,739	$ 1,881,397	$ -	$ 32,194,136

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental activities	
General government	$ 284,198
Public safety	369,220
Culture and recreation	210,969
Public works	1,303,193
Total depreciation expense - Governmental Activities	$ 2,167,580
Business-Type activities	
Water and sewer	$ 403,021
Drainage	348,724
Internal Service Fund	28,658
Total depreciation expense - Business-Type Activities	$ 780,403

NOTE 3 - CAPITAL ASSETS (continued

Construction in progress and remaining commitments under construction related construction contracts at September 30, 2017 are as follows:

Project Name	Remaining Commitment	Total In Progress
Governmental Activities:		
Water Tower	$ 3,259	$ 6,741
Wastewater Improvements	-	107,730
Capp Smith retaining wall project	165,550	34,450
Green Ribbon project	46,540	25,460
Bursey Road - phase two	1,595,708	521,692
Whitley Road - phase one	421,013	390,987
Splashpad	657	344
Senior Center	67,774	2,250,701
Total Governmental Activities	$ 2,300,501	$ 3,338,105
Business-Type Activities:		
Water and Sewer Projects	$ 892,095	$ 8,937,551
Total Business-Type Activities	$ 892,095	$ 8,937,551

NOTE 4 - LONG-TERM DEBT

During the fiscal year ended September 30, 2017, the City issued a Combination Tax and Limited Pledge Revenue Certificates of Obligation Series 2017 in amount of $7,325,000 with an interest rate of 3.00% and premiums in the amount of $259,710. The proceeds will be used for street and drainage improvements and professional consulting fees related to the projects.

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2017:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
Governmental Activities					
General obligation bonds	$ 3,045,000	$ -	$ (710,000)	$ 2,335,000	$ 730,000
Certificates of obligation	14,120,000	-	(925,000)	13,195,000	935,000
Unamortized bond premium	329,067	-	(20,382)	308,685	-
Note payable	502,847	-	(60,225)	442,622	62,935
Compensated absences	2,244,651	346,863	(329,034)	2,262,480	84,560
Total governmental activities	20,241,565	346,863	(2,044,641)	18,543,787	1,812,495
Business-Type Activities					
Certificates of obligation	8,595,000	7,325,000	(505,000)	15,415,000	760,000
Unamortized bond premium	351,403	259,710	(27,808)	583,305	-
Compensated absences	321,634	58,061	(9,176)	370,519	47,191
Total Business-type Activities	9,268,037	7,642,771	(541,984)	16,368,824	807,191
Total government-wide activities	$ 29,509,602	$ 7,989,634	$ (2,586,625)	$ 34,912,611	$ 2,619,686

NOTE 4 - LONG-TERM DEBT (continued)

Prior Year Refunding of General Obligation and Sales Tax Bonds

In prior years, the City deferred certain outstanding bonds by placing proceeds of general obligation and sales tax refunding bonds in irrevocable escrow accounts to provide for all future debt service payments on the old bonds. Accordingly, the escrow accounts to provide for all future bonds are not included in the City's financial statements. As of September 30, 2017, none of the defeased bonds remain outstanding.

Amounts payable at September 30, 2017, are comprised of the following individual issues:

	Governmental	Business-Type
$2,855,000 Series 2006 General Obligation Refunding Bonds due in annual installments of $20,000 to $330,000 through April 1, 2020; interest at 3.730%.	$ 960,000	$ -
$3,400,000 Series 2007 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $65,000 to $255,000 through February 1, 2027; interest at 4.110%.	2,140,000	-
$1,020,000 Series 2011 General Obligation Refunding Bonds due in annual installments of $135,000 to $160,000 through February 1, 2018; interest at 1.95%.	160,000	-
$2,145,000 Series 2013 General Obligation Refunding Bonds due in annual installments of $125,000 to $270,000 through February 1, 2023; interest at 2.25%.	1,215,000	-
$3,500,000 Series 2014 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $85,000 to $900,000 through February 2034; interest at 1.00% to 3.500%.	3,185,000	-
$5,885,000 Series 2016 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $285,000 to $355,000 through February 2036; interest at 2.00% to 4.00%	5,600,000	
$7,365,000 Series 2011 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $315,000 to $660,000 through February 1, 2026; interest at 2.00% to 4.00%	2,270,000	1,900,000
$7,730,000 Series 2012 Certificates of Obligation due in annual installments of $290,000 to $510,000 through February 1, 2032; interest at 2.00% to 3.25%.	-	6,190,000
$7,325,000 Series 2017 Certificates of Obligation due in annual installments of $245,000 to $480,000 through February 1, 2037; interest at 3.00% to 5.00%.	-	7,325,000
Total Bonds Payable	$ 15,530,000	$ 15,415,000

NOTE 4 - LONG-TERM DEBT (continued)

Notes payable at September 30, 2017, are comprised of the following individual issues:

	Governmental	Business-Type
Note payable to City of North Richland Hills annual installments of $19,785, including interest at 4.5%, maturing February 2021.	$ 70,982	$ -
Note payable to City of North Richland Hills annual installments of $63,068, including interest at 4.5%, maturing October 2024.	371,640	-
Total Notes Payable	442,622	-
Total Bonds and Notes Payable	$ 15,972,622	$ 15,415,000

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each bond type for the years subsequent to September 30, 2017, are as follows:

General Obligation Bonds

	Governmental Activities		
	Principal	Interest	Total
2018	$ 730,000	$ 56,000	$ 786,000
2019	500,000	37,740	537,740
2020	520,000	21,455	541,455
2021	200,000	10,913	210,913
2022	195,000	6,469	201,469
2023 - 2024	190,000	2,138	192,138
	$ 2,335,000	$ 134,715	$ 2,469,715

Certificates of Obligation

	Governmental Activities		Business-Type Activities		
	Principal	Interest	Principal	Interest	Total
2018	$ 935,000	$ 374,240	$ 760,000	$ 500,788	$ 2,570,028
2019	1,015,000	346,692	810,000	442,750	2,614,442
2020	1,040,000	314,411	835,000	418,925	2,608,336
2021	1,415,000	275,852	865,000	393,425	2,949,277
2022	1,470,000	233,258	885,000	367,175	2,955,433
2023 - 2027	3,540,000	755,266	4,630,000	1,393,652	10,318,918
2028 - 2032	2,140,000	327,606	4,360,000	690,827	7,518,433
2033 - 2037	1,640,000	68,567	2,270,000	174,450	4,153,017
	$ 13,195,000	$ 2,695,892	$ 15,415,000	$ 4,381,992	$ 35,687,884

NOTE 4 - LONG-TERM DEBT (continued)

Annual Requirements to Retire Debt Obligations (continued)

The annual aggregate maturities for each bond type for the years subsequent to September 30, 2017, are as follows:

Notes Payable

	Governmental Activities		
	Principal	Interest	Total
2018	$ 62,935	$ 19,918	$ 82,853
2019	65,767	17,086	82,853
2020	68,727	14,126	82,853
2021	71,819	10,764	82,583
2022	55,266	7,802	63,068
2023 - 2024	118,108	8,031	126,139
	$ 442,622	$ 77,727	$ 520,349

General Obligation Bonds and Certificates of Obligation

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the City. General Obligation Bonds and Certificates of Obligation require the City to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The City is in compliance with this requirement.

NOTE 5 - INTERFUND TRANSFERS

All interfund transfers between the various funds are approved supplements to the operations of those funds.

Interfund transfers:

Transfers In	Transfers Out	Amounts
General Fund	WPDC Sales Tax Fund	$ 36,285
General Fund	Storm Drain Utility	70,973
General Fund	WCCPD Fund	28,813
General Fund	Water and Sewer Operating Fund	386,722
Capital Projects Fund	General Fund	370,000
Equipment Replacement Fund	Water and Sewer Operating Fund	50,000
Equipment Replacement Fund	Storm Drain Utility	9,000
Equipment Replacement Fund	General Fund	291,000
		$ 1,242,793

Transfers are primarily used to move funds to:

- General Fund from Watauga Parks Development Corporation (“WPDC”) Sales Tax Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services used also by other funds.

NOTE 5 - INTERFUND TRANSFERS (continued)

- General Fund from Storm Drain Utility Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services used also by other funds.

- General Fund from Watauga Crime Control and Prevention District ("WPCCPD") Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services used also by other funds.

- General Fund from Water and Sewer Operating Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services are also used by other funds.

- Capital Projects Fund from General Fund for capital improvement plans, specifically street reconstruction and renovations.

- The transfer to Equipment Replacement Fund were for the acquisition of various replacement capital needs in the City.

NOTE 6 - PENSION PLAN

The City of Watauga, Texas participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the city are required to participate in TMRS.

A. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the City Council, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

Employee deposit rate	7.00%
Matching ration (city to employee)	2 to 1
Years required for vesting	5
Updated Service Credit	100% Repeating Transfers
Annuity Increase (to retirees)	70% of CPI Repeating

NOTE 6 - PENSION PLAN (continued)

A. Benefits Provided (continued)

Employees covered by benefit terms.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age.

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Number of	
Inactive employees or beneficiaries currently receiving benefits	89
Inactive employees entitled to but not yet receiving benefits	158
Active employees	163
Total	410

B. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7.00 percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.32 percent and 13.90 percent in calendar years 2016 and 2017, respectively. The city's contributions to TMRS for the year ended September 30, 2017 were $1,259,325, and were equal to the required contributions.

C. Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

NOTE 6 - PENSION PLAN (continued)

C. Net Pension Liability (continued)

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2016 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

NOTE 6 - PENSION PLAN (continued)

C. Net Pension Liability (continued)

Changes in Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 12/31/2015	$ 42,855,824	$ 35,942,184	$ 6,913,640
Changes for the year:			
Service cost	1,513,714	-	1,513,714
Interest (on the Total Pension Liability)	2,907,277	-	2,907,277
Difference between expected and actual experience	(570,355)	-	(570,355)
Chages of assumptions	-	-	-
Contributions - employer	-	1,197,145	(1,197,145)
Contributions - employee	-	636,779	(636,779)
Net investment income	-	2,428,960	(2,428,960)
Benefit payments, including refunds of employee contributions	(1,083,810)	-	(1,083,810)
	-	(1,083,810)	1,083,810
Administrative expense	-	(27,433)	27,433
Other	-	(1,478)	1,478
Balance at 12/31/2016	$ 45,622,650	$ 39,092,347	$ 6,530,303

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease	Current Single Rate Assumption	1% Increase
5.75%	6.75%	7.75%
$13,659,655	$6,530,303	$775,704

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

NOTE 6 - PENSION PLAN (continued)

D. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017 the city recognized pension expense of $1,639,580.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	$ -	$ 649,020
Difference in assumption changes	28,444	-
Difference in projected and actual earnings on pension plan investments.	1,608,113	-
Employer contributions made after the measurement date	898,914	-
Totals	$ 2,535,471	$ 649,020

$898,914 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
2018	$ 265,428
2019	373,880
2020	348,802
2021	(573)
Total	$ 987,537

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS

In fiscal year 2009, the City implemented Governmental Accounting Standards Board (“GASB”) Statement 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (“OPEB”) prospectively.

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (continued)

Supplemental Death Benefits Plan

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System ("TMRS") known as the Supplemental Death Benefits Fund ("SDBF"). See Note 6 for information on accessing the comprehensive annual financial report for TMRS. The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death); retired employees are insured for $7,500. This coverage is an OPEB.

Funding Policy

The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. Contributions are utilized to fund active member deaths on a pay-as-you-go basis. Any excess contributions over payments then become net position available for OPEB.

Contributions

Contribution requirements of the participating employers are established and may be amended by the TMRS Board of Trustees. The City is required to contribute at a rate assessed each year by the TMRS Board of Trustees, currently 0.16% of covered payroll. The TMRS Board of Trustees sets the employer contribution rate based on the mortality and service experience of all employees by the plan and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect.

Contributions are made monthly based on covered payroll of employee members of the City. The City contributes to the SDBF at the contractually required rate as determined by the annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The City's contribution rates for the last three calendar/plan years are as follows:

Schedule of Contribution Rates (Retiree-only portion of the rate)

Plan Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	% of ARC Contributed
2014	0.15%	0.15%	100%
2015	0.14%	0.14%	100%
2016	0.16%	0.16%	100%

The City's contributions to the TMRS SDBF for the years ended 2017, 2016 and 2015 were $15,326, $13,951 and $12,607, respectively, which equaled the required contributions each year.

NOTE 8 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts such as: theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City participates in the Texas Municipal League Intergovernmental Risk Pool (Risk Pool) to provide general liability and property insurance and workers' compensation.

The City, along with other participating entities, contributes annual amounts determined by the Risk Pool. Contributions to the Risk Pool for workers' compensation are based on the City's payroll. As claims arise they are submitted to and paid by the Risk Pool.

The liability of the Texas Municipal League Intergovernmental Risk Pool is limited to a $2,000,000 annual aggregate for general liability, errors and omissions, and law enforcement. The automobile liability limit for the risk pool is $1,000,000 for each occurrence.

There have been no significant changes in insurance coverage as compared to last year. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 9 - LITIGATION

Various claims and lawsuits are pending against the City of Watauga. In the opinion of the City's Legal Counsel and Management, the potential losses will not have a material effect on the City's financial statements.

NOTE 10 - OPERATING LEASE

The City is committed under various noncancelable operating leases, primarily for equipment (principally in the General Fund). Future minimum operating lease commitments are as follows:

2018	$	47,774
2019	$	44,550
	$	92,324

Lease and rental expenditures were $56,024 for the year ended September 30, 2017.

NOTE 11 - FUND BALANCE RESTRICTIONS

Amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors are classified as restricted fund balance. A summary of restricted fund balance in the governmental funds at September 30, 2017, follows:

	G.O. Debt Service Funds	G.O. Capital Projects Fund	Non Major Governmental Funds
Capital acquisitions and contractual obligations	$ -	$ 5,488,953	$ 430,392
Debt service	537,076	-	2,824
Culture and recreation:			
Park improvements	-	-	805,441
Library purposes	-	-	33,135
	-	-	838,576
Public works:			
Street maintenance	-	-	1,084,390
Public safety:			
Law enforcement	-	-	1,501,524
Municipal court operations	-	-	267,152
	-	-	1,768,676
Total	$ 537,076	$ 5,488,953	$ 4,124,858

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF WATAUGA, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last Three Measurement Years

	2016	2015	2014
Total pension liability:			
Service cost	$ 1,513,714	$ 1,484,819	$ 1,278,209
Interest	2,907,277	2,804,072	2,632,122
Difference between expected and actual experience	(570,355)	(273,667)	(422,782)
Change in assumptions	-	60,403	-
Benefit payments, including refunds of employee contributions	(1,083,810)	(1,071,136)	(1,197,706)
Net change in total pension liability	2,766,826	3,004,491	2,289,843
Total pension liability - beginning	42,855,824	39,851,333	37,561,490
Total pension liability - ending (a)	$ 45,622,650	$ 42,855,824	$ 39,851,333
Plan fiduciary net position:			
Contributions - employer	$1,197,145	$1,245,119	$1,115,845
Contributions - employee	636,779	652,873	609,276
Net investment income	2,428,960	51,790	1,871,755
Benefit payments, including refunds of employee contributions	(1,083,810)	(1,071,136)	(1,197,706)
Administrative expense	(27,433)	(31,544)	(19,541)
Other	(1,478)	(1,558)	(1,607)
Net change in plan fiduciary net position	3,150,163	845,544	2,378,022
Plan fiduciary net position - beginning	35,942,184	35,096,640	32,718,618
Plan fiduciary net position - ending (b)	$ 39,092,347	$ 35,942,184	$ 35,096,640
Net pension liability - ending (a) - (b)	$ 6,530,303	$ 6,913,640	$ 4,754,693
Plan fiduciary net position as a percentage of total pension liability	85.69%	83.87%	88.07%
Covered employee payroll	$9,096,836	$9,326,755	$8,703,943
Net pension liability as a percentage of covered employee payroll	71.79%	74.13%	54.63%

The amounts presented are for each measurement year, which end the preceding December 31st of the City's fiscal year end. Net pension liability is calculated using a new methodology and will be presented prospectively in accordance with GASB 68. Ten years of data should be presented in this schedule but data was unavailable prior to 2014.

CITY OF WATAUGA, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
Last Six Fiscal Years

	Fiscal Year					
	2017	2016	2015	2014	2013	2012
Actuarially Determined Contributions	$1,259,325	$1,194,583	$1,190,315	$1,108,798	$1,082,831	$1,129,470
Contributions in relation to the actuarially determined contribution	1,259,325	1,194,583	1,190,315	1,108,798	1,082,831	1,129,470
Contribution deficiency(excess)	-	-	-	-	-	-
Covered employee payroll	9,169,310	9,040,337	9,005,317	8,638,774	8,473,213	8,852,583
Contributions as a percentage of Covered employee payroll	13.73%	13.21%	13.22%	12.84%	12.78%	12.76%

Notes: Actuarially determined contribution rates are calculated as of December 31st and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation to an experience study for the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information:	
Notes	Removed statutory max.

CITY OF WATAUGA, TEXAS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended September 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Taxes and franchise fees	$ 8,964,545	$ 8,964,545	$ 8,768,940	$ (195,605)
Licenses and permits	353,000	353,000	428,530	75,530
Charges for services	758,000	758,000	745,127	(12,873)
Fines and forfeitures	745,700	745,700	630,736	(114,964)
Interest income	12,400	12,400	62,173	49,773
Intergovernmental	501,000	501,000	457,222	(43,778)
Miscellaneous	221,000	221,000	217,711	(3,289)
Total Revenues	11,555,645	11,555,645	11,310,439	(245,206)
Expenditures				
Current:				
Administration	277,900	277,900	270,448	7,452
Non-departmental	1,454,476	1,634,476	1,468,046	166,430
Human resources	156,000	156,000	155,946	54
Finance	423,250	427,250	418,554	8,696
MIS	447,200	447,200	362,779	84,421
Municipal Court	397,250	397,250	367,594	29,656
Library	924,800	924,800	885,208	39,592
Recreation and community services	621,000	621,000	617,140	3,860
Police	3,435,000	3,435,000	3,308,285	126,715
Fire/EMS	2,220,000	2,249,000	2,239,046	9,954
Public works	1,142,700	1,142,700	1,075,608	67,092
Fleet maintenance	175,800	175,800	175,796	4
Buildings	820,300	828,300	781,581	46,719
Total Expenditures	12,495,676	12,716,676	12,126,031	590,645
Excess (deficiency) of revenues over expenditures	(940,031)	(1,161,031)	(815,592)	345,439
Other Financing Sources (Uses)				
Proceeds from sale of assets	25,000	25,000	8,880	(16,120)
Transfers in	569,000	569,000	522,793	(46,207)
Transfers out	(661,000)	(661,000)	(661,000)	-
Total other financing sources and uses	(67,000)	(67,000)	(129,327)	(62,327)
Net change in fund balances	(1,007,031)	(1,228,031)	(944,919)	283,112
Fund balance, beginning of year	5,476,752	5,476,752	5,476,752	-
Fund balance, end of year	$ 4,469,721	$ 4,248,721	$ 4,531,833	$ 283,112

CITY OF WATAUGA, TEXAS
NOTES TO REQUIRED SUPPLEMENTARTY BUDGET INFORMATION
Year Ended September 30, 2017

BUDGETARY CONTROLS AND PROCEDURES

The City Charter follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to August 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures/expenses and the means of financing them.

- The proposed budget and all supporting schedules are filed with the City Secretary when submitted to City Council.

- Public hearings are conducted to obtain taxpayer comments.

- Prior to September 15, the budget is adopted by affirmative vote of at least two thirds of the members of the City Council.

- The City Manager is authorized to transfer budgeted amounts between programs within a department; however, any revisions that alter the total expenditures of any department must be approved by the City Council.

- If at any time during a fiscal year, it is estimated by the City Manager that current year's expenditures in any fund will exceed available revenues (including fund balance at the start of the year), the City Manager shall recommend measures to the City Council to ensure that a positive fund balance is maintained.

- Budgets for the General, Special Revenue, Debt Service and Enterprise Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as amended by the City Council. Such appropriations lapse at year-end.

- Budgetary data for the Capital Projects Fund has not been presented in the accompanying financial statements as such funds are budgeted over the life of the respective project and not on an annual basis. Accordingly, formal budgetary integration of the Capital Projects Fund is employed and comparison of actual results of operations to budgetary data for such funds is not presented.

- Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Funds and Enterprise Funds. Budgetary control is maintained at the departmental level.

- Budgetary data for the Enterprise Funds has not been presented since the reporting on such budgets is not legally required. Budgetary control is maintained at the departmental level.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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NON MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Watauga Parks Development Corporation Sales Tax Fund – to account for a quarter-cent sales tax increase, approved by voters, to build and improve City parks.

Watauga Crime Control and Prevention Fund – to account for a half-cent sales tax increase approved by the voters to enhance law enforcement in Watauga.

Library Donation Fund – to account for public donations made to the City specifically for the benefit of the public library.

Municipal Court Security Fund – to account for a fee established in the 1997 Texas Legislative session to allow a $3 assessment on all court fines paid. This assessment allows municipalities to purchase security equipment such as surveillance cameras, bulletproof glass and bailiff costs for Municipal Court areas.

Municipal Court Technology Fund – to account for a fee established in the 1997 Texas legislative session to allow a $4 assessment on all court fines paid. This assessment allows municipalities to purchase and maintain technology equipment such as computer hardware and software for the benefit of the Municipal Court.

Municipal Court Juvenile Case Manager Fund – to account for a fee established and approved by City Council January 28, 2008 to allow a $5 assessment per misdemeanor offense. Fees are paid out of this fund to pay personnel costs of the Municipal Court Juvenile Case Manager.

Park Vista Fund – to account for revenue and expenditures associated with four acres of land annexed by the City.

Street Maintenance Sales Tax Fund – to account for a quarter-cent sales tax approved by voters on May 12, 2012 for an initial four years effective October 1, 2012. The purpose of the sales tax is to provide for the maintenance and repair of municipal streets in existence at the time of the vote.

Traffic Safety Fund – to account for civil or administrative penalties to no more than $75 and late penalties to no more than $25. Legislation passed by 80th Texas Legislature allows a local government entity to use a photographic traffic signal enforcement system. One-half the net revenue from this fund is remitted to the Texas Comptroller for deposit into a Regional Trauma Account.

DEBT SERVICE FUND

Watauga Parks Development Corporation Revenue Bonds – to accumulate monies for the payment of interest and principal on sales tax revenue bonds. Financing is provided by sales tax revenue.

CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Watauga Parks Development Corporation Construction Fund – to account for construction projects funded by the Watauga Parks Development Corporation.

Bunker Hill Drainage Capital Projects Fund – to account for drainage projects in the Bunker Hill area of the City.

CITY OF WATAUGA, TEXAS
COMBINING BALANCE SHEET
NON MAJOR GOVERNMENTAL FUNDS
September 30, 2017

	Special Revenue Funds						
	WPDC Sales Tax Fund	Watauga Crime Control and Prevention Fund	Library Donation Fund	Municipal Court Security Fund	Municipal Court Technology Fund	Municipal Court Juvenile Case Manager Fund	Traffic Safety Fund
ASSETS							
Cash and cash equivalents	$ 335,236	$ 364,595	$ 16,430	$ -	$ 67,588	$ 57,916	$ 638,033
Investments	366,799	685,212	16,655	15,444	58,500	69,401	-
Accounts receivable	120,094	240,913	194	70	144	171	-
Prepaids and deposits	4,675	2,523	-	-	-	-	-
Total assets	$ 826,804	$ 1,293,243	$ 33,279	$ 15,514	$ 126,232	$ 127,488	$ 638,033
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable	$ 6,112	$ 11,987	$ -	$ -	$ -	$ -	$ 358,158
Accrued liabilities	10,696	48,126	144	1,397	-	685	8,958
Total liabilities	16,808	60,113	144	1,397	-	685	367,116
FUND BALANCES							
Non-spendable							
Prepaid items	4,675	2,523	-	-	-	-	-
Restricted							
Capital acquisitions and contractual obligations	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Culture and recreation	805,321	-	33,135	-	-	-	-
Public works	-	-	-	-	-	-	-
Public safety	-	1,230,607	-	14,117	126,232	126,803	270,917
Total Fund Balances	809,996	1,233,130	33,135	14,117	126,232	126,803	270,917
Total Liabilities and Fund Balances	$ 826,804	$ 1,293,243	$ 33,279	$ 15,514	$ 126,232	$ 127,488	$ 638,033

				Capital Projects Funds			
Park Vista Fund	Street Maintenance Sales Tax Fund	Total Special Revenue Funds	WPDC Revenue Bond Debt Service Fund	WPDC Construction Fund	Bunker Hill Drainage Fund	Total Capital Projects Funds	Total Non major Governmental Funds
$ 120	$ 292,602	$ 1,772,520	$ 2,824	$ 137,628	$ 2	$ 137,630	$ 1,912,974
-	675,185	1,887,196	-	298,914	-	298,914	2,186,110
-	121,913	483,499	-	738	-	738	484,237
-	-	7,198	-	-	-	-	7,198
$ 120	$ 1,089,700	$ 4,150,413	$ 2,824	$ 437,280	$ 2	$ 437,282	$ 4,590,519
$ -	$ 5,310	$ 381,567	$ -	$ 6,890	$ -	$ 6,890	$ 388,457
-	-	70,006	-	-	-	-	70,006
-	5,310	451,573	-	6,890	-	6,890	458,463
-	-	7,198	-	-	-	-	7,198
-	-	-	-	430,390	2	430,392	430,392
-	-	-	2,824	-	-	-	2,824
120	-	838,576	-	-	-	-	838,576
-	1,084,390	1,084,390	-	-	-	-	1,084,390
-	-	1,768,676	-	-	-	-	1,768,676
120	1,084,390	3,698,840	2,824	430,390	2	430,392	4,132,056
$ 120	$ 1,089,700	$ 4,150,413	$ 2,824	$ 437,280	$ 2	$ 437,282	$ 4,590,519

CITY OF WATAUGA, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON MAJOR GOVERNMENTAL FUNDS
Year Ended September 30, 2017

	Special Revenue Funds						
	WPDC Sales Tax Fund	Watauga Crime Control and Prevention Fund	Library Donation Fund	Municipal Court Security Fund	Municipal Court Technology Fund	Municipal Court Juvenile Case Manager Fund	Traffic Safety Fund
Revenues							
Taxes	$ 723,260	$ 1,435,448	$ -	$ -	$ -	$ -	$ -
Fines and forfeitures	-	-	-	-	-	-	891,853
Interest income	4,699	6,539	779	379	757	913	393
Miscellaneous	-	44,114	7,216	11,339	15,095	18,798	-
Total revenues	727,959	1,486,101	7,995	11,718	15,852	19,711	892,246
Expenditures							
Current:							
Public safety	-	1,276,031	-	18,239	4,807	23,764	752,272
Culture and recreation	610,119	-	1,926	-	-	-	-
Public w orks	-	-	-	-	-	-	-
Capital outlay	7,695	46,546	-	-	-	-	-
Total Expenditures	617,814	1,322,577	1,926	18,239	4,807	23,764	752,272
Excess (deficiency) of revenues over expenditures	110,145	163,524	6,069	(6,521)	11,045	(4,053)	139,974
OTHER FINANCING SOURCES (USES)							
Proceeds from sale of assets	7,151	-	-	-	-	-	-
Transfers out	(36,285)	(28,813)	-	-	-	-	-
Total other financing sources (uses)	(29,134)	(28,813)	-	-	-	-	-
Net change in fund balances	81,011	134,711	6,069	(6,521)	11,045	(4,053)	139,974
Fund balances - beginning	728,985	1,098,419	27,066	20,638	115,187	130,856	130,943
Fund balances - ending	$ 809,996	$ 1,233,130	$ 33,135	$ 14,117	$ 126,232	$ 126,803	$ 270,917

				Capital Projects Funds			
Park Vista Fund	Street Maintenance Sales Tax Fund	Total Special Revenue Funds	WPDC Revenue Bond Debt Service Fund	WPDC Construction Fund	Bunker Hill Drainage Fund	Total Capital Projects Funds	Total Non major Governmental Funds
$ -	$ 715,360	$ 2,874,068	$ -	$ -	$ -	$ -	$ 2,874,068
-	-	891,853	-	-	-	-	891,853
-	9,704	24,163	24	4,294	-	4,294	28,481
-	-	96,562	-	-	-	-	96,562
-	725,064	3,886,646	24	4,294	-	4,294	3,890,964
-	-	2,075,113	-	-	-	-	2,075,113
-	-	612,045	-	-	-	-	612,045
-	87,498	87,498	-	-	-	-	87,498
-	371,245	425,486	-	78,449	-	78,449	503,935
-	458,743	3,200,142	-	78,449	-	78,449	3,278,591
-	266,321	686,504	24	(74,155)	-	(74,155)	612,373
-	-	7,151	-	-	-	-	7,151
-	-	(65,098)	-	-	-	-	(65,098)
-	-	(57,947)	-	-	-	-	(57,947)
-	266,321	628,557	24	(74,155)	-	(74,155)	554,426
120	818,069	3,070,283	2,800	504,545	2	504,547	3,577,630
$ 120	$ 1,084,390	$ 3,698,840	$ 2,824	$ 430,390	$ 2	$ 430,392	$ 4,132,056

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
WPDC SALES TAX SPECIAL REVENUE FUND
Year Ended September 30, 2017

	Budget Amounts		Actual	Variance Positive /
	Original Budget	Final Budget	Amounts	(Negative)
Revenues				
Taxes	$ 744,935	$ 744,935	$ 723,260	$ (21,675)
Interest income	1,000	1,000	4,699	3,699
Total Revenues	745,935	745,935	727,959	(17,976)
Expenditures				
Current:				
Culture and recreation	700,150	700,150	610,119	90,031
Capital Outlay	10,000	10,000	7,695	2,305
Total Expenditures	710,150	710,150	617,814	92,336
Excess (deficiency) of revenues over expenditures	35,785	35,785	110,145	74,360
Other financing sources (uses)				
Proceeds from sale of assets	-	-	7,151	7,151
Transfers out	(38,000)	(38,000)	(36,285)	1,715
Total other financing sources (uses)	(38,000)	(38,000)	(29,134)	8,866
Net change in fund balances	(2,215)	(2,215)	81,011	83,226
Fund balances, beginning of year	728,985	728,985	728,985	-
Fund balances, end of year	$ 726,770	$ 726,770	$ 809,996	$ 83,226

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
WATAUGA CRIME CONTROL AND PREVENTION SPECIAL REVENUE FUND
Year Ended September 30, 2017

	Budget Amounts		Actual Amounts	Variance Positive / (Negative)
	Original Budget	Final Budget		
Revenues				
Taxes	$ 1,490,000	$ 1,490,000	$ 1,435,448	$ (54,552)
Interest income	500	500	6,539	6,039
Miscellaneous	47,000	47,000	44,114	(2,886)
Total revenues	1,537,500	1,537,500	1,486,101	(51,399)
Expenditures				
Current:				
Public safety	1,502,700	1,502,700	1,276,031	226,669
Capital Outlay	7,000	7,000	46,546	(39,546)
Total expenditures	1,509,700	1,509,700	1,322,577	187,123
Excess (deficiency) of revenues over expenditures	27,800	27,800	163,524	135,724
Other financing sources (uses)				
Transfers out	(30,000)	(30,000)	(28,813)	(1,187)
Total other financing sources (uses)	(30,000)	(30,000)	(28,813)	(1,187)
Net change in fund balances	(2,200)	(2,200)	134,711	136,911
Fund balances, beginning of year	1,098,419	1,098,419	1,098,419	-
Fund balances, end of year	$ 1,096,219	$ 1,096,219	$ 1,233,130	$ 136,911

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
LIBRARY DONATION SPECIAL REVENUE FUND
Year Ended September 30, 2017

	Budget Amounts		Actual Amounts	Variance Positive / (Negative)
	Original Budget	Final Budget		
Revenues				
Interest income	$ 30	$ 30	$ 779	$ 749
Miscellaneous	7,000	7,000	7,216	216
Total Revenues	7,030	7,030	7,995	965
Expenditures				
Current:				
Culture and recreation	6,880	6,880	1,926	4,954
Total expenditures	6,880	6,880	1,926	4,954
Net change in fund balances	150	150	6,069	5,919
Fund balances, beginning of year	27,066	27,066	27,066	-
Fund balances, end of year	$ 27,216	$ 27,216	$ 33,135	$ 5,919

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MUNICIPAL COURT BUILDING SECURITY SPECIAL REVENUE FUND
Year Ended September 30, 2017

	Budget Amounts		Actual Amounts	Variance Positive / (Negative)
	Original Budget	Final Budget		
Revenues				
Interest income	$ 20	$ 20	$ 379	$ 359
Other	16,000	16,000	11,339	(4,661)
Total Revenues	16,020	16,020	11,718	(4,302)
Expenditures				
Current:				
Public safety	20,050	20,050	18,239	1,811
Total Expenditures	20,050	20,050	18,239	1,811
Excess (deficiency) of revenues over expenditures	(4,030)	(4,030)	(6,521)	(2,491)
Net change in fund balances	(4,030)	(4,030)	(6,521)	(2,491)
Fund balances, beginning of year	20,638	20,638	20,638	-
Fund balances, end of year	$ 16,608	$ 16,608	$ 14,117	$ (2,491)

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MUNICIPAL COURT TECHNOLOGY SPECIAL REVENUE FUND
Year Ended September 30, 2017

	Budget Amounts		Actual Amounts	Variance Positive / (Negative)
	Original Budget	Final Budget		
Revenues				
Interest income	$ 100	$ 100	$ 757	$ 657
Miscellaneous	19,000	19,000	15,095	(3,905)
Total revenues	19,100	19,100	15,852	(3,248)
Expenditures				
Current:				
Public safety	9,000	9,000	4,807	4,193
Total expenditures	9,000	9,000	4,807	4,193
Net change in fund balances	10,100	10,100	11,045	945
Fund balances, beginning of year	115,187	115,187	115,187	-
Fund balances, end of year	$ 125,287	$ 125,287	$ 126,232	$ 945

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MUNICIPAL COURT JUVENILE CASE MANAGER SPECIAL REVENUE FUND
Year Ended September 30, 2017

	Budget Amounts		Actual Amounts	Variance Positive / (Negative)
	Original Budget	Final Budget		
Revenues				
Interest income	$ 100	$ 100	$ 913	$ 813
Other	25,000	25,000	18,798	(6,202)
Total Revenues	25,100	25,100	19,711	(5,389)
Expenditures				
Current:				
Public safety	33,400	33,400	23,764	9,636
Total expenditures	33,400	33,400	23,764	9,636
Net change in fund balances	(8,300)	(8,300)	(4,053)	4,247
Fund balances, beginning of year	130,856	130,856	130,856	-
Fund balances at year end	$ 122,556	$ 122,556	$ 126,803	$ 4,247

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
STREET MAINTENANCE SALES TAX SPECIAL REVENUE FUND
Year Ended September 30, 2017

	Budget Amounts		Actual Amounts	Variance Positive / (Negative)
	Original Budget	Final Budget		
Revenues				
Sales taxes	$ 733,044	$ 733,044	$ 715,360	$ (17,684)
Interest income	1,000	1,000	9,704	8,704
Total revenues	734,044	734,044	725,064	(8,980)
Expenditures				
Public works	110,000	110,000	87,498	22,502
Capital outlay	600,000	600,000	371,245	228,755
Total expenditures	710,000	710,000	458,743	251,257
Net change in fund balances	24,044	24,044	266,321	242,277
Fund balances, beginning of year	818,069	818,069	818,069	-
Fund balances at year end	$ 842,113	$ 842,113	$ 1,084,390	$ 242,277

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
TRAFFIC SAFETY SPECIAL REVENUE FUND
Year Ended September 30, 2017

	Budget Amounts		Actual	Variance Positive /
	Original Budget	Final Budget	Amounts	(Negative)
Revenues				
Fines and forfeits	$ 680,000	$ 680,000	$ 891,853	$ 211,853
Interest income	-	-	393	393
Total Revenues	680,000	680,000	892,246	212,246
Expenditures				
Current:				
Public safety	682,560	752,560	752,272	288
Total expenditures	682,560	752,560	752,272	288
Net change in fund balances	(2,560)	(72,560)	139,974	212,534
Fund balances, beginning of year	130,943	130,943	130,943	-
Fund balances at year end	$ 128,383	$ 58,383	$ 270,917	$ 212,534

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL OBLIGATION DEBT SERVICE FUND
Year Ended September 30, 2017

	Budget Amounts		Actual	Variance Positive /
	Original Budget	Final Budget	Amounts	(Negative)
Revenues				
Taxes				
Property taxes	$ 2,114,000	$ 2,114,000	$ 2,212,227	$ 98,227
Penalties and interest	10,000	10,000	12,102	2,102
Interest income	800	800	4,536	3,736
Total revenues	2,124,800	2,124,800	2,228,865	104,065
Expenditures				
Debt service				
Principal	1,560,000	1,635,000	1,635,000	-
Interest	537,716	462,716	451,981	10,735
Total expenditures	2,097,716	2,097,716	2,086,981	10,735
Net change in fund balances	27,084	27,084	141,884	114,800
Fund balances, beginning of year	395,192	395,192	395,192	-
Fund balances at year end	$ 422,276	$ 422,276	$ 537,076	$ 114,800

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
WPDC REVENUE BOND DEBT SERVICE FUND
Year Ended September 30, 2017

	Budget Amounts		Actual	Variance Positive /
	Original Budget	Final Budget	Amounts	(Negative)
Revenues				
Interest income	$ -	$ -	$ 24	$ 24
Total revenues	-	-	24	24
Excess (deficiency) of revenues over expenditures	-	-	24	24
Fund balances, beginning of year	2,800	2,800	2,800	-
Fund balances at year end	$ 2,800	$ 2,800	$ 2,824	$ 24

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STATISTICAL SECTION
(Unaudited)

STATISTICAL SECTION

This part of the City of Watauga's Comprehensive Annual Financial Report provides detailed information to help the reader better understand information presented within the financial statements, note disclosures, and required supplementary information and how they relate to the City's overall financial health.

Financial Trends Contains trend information to aid the reader in understanding how the City's financial performance has changed over time.	(Tables 1-4)
Revenue Capacity Contains information to help the reader assess the City's most significant local revenue sources, the property tax and water revenues.	(Tables 5-10)
Debt Capacity Presents information to assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	(Tables 11-14)
Demographic and Economic Information Offers information to help the reader understand the environment within which the City's financial activities take place.	(Tables 15-16)
Operating Information Contains service and infrastructure data to help the reader understand how the City's financial report relates to the services the City provides and the activities it performs.	(Tables 17-19)

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

Table 1

CITY OF WATAUGA
NET POSITION BY COMPONENT
Last Ten Fiscal Years
(accrual basis of accounting)
(Unaudited)

	2008 (1)	2009 (1)	2010 (1)	2011 (1)	2012	2013	2014	2015	2016	2017
Governmental activities										
Net investment in capital assets	$ 31,150,229	$ 30,732,214	$ 32,581,629	$ 32,223,143	$ 34,487,229	$ 36,189,453	$ 36,422,084	$ 36,792,569	$ 36,945,402	$ 36,839,508
Restricted	482,624	580,384	489,133	714,041	439,660	478,895	534,026	295,177	371,859	498,538
Unrestricted	7,027,793	8,390,973	8,145,817	9,300,712	7,569,861	6,506,337	6,995,208	4,513,351	4,306,823	4,968,172
Total governmental activities net position	$ 38,660,646	$ 39,703,571	$ 41,216,579	$ 42,237,896	$ 42,496,750	$ 43,174,685	$ 43,951,318	$ 41,601,097	$ 41,624,084	$ 42,306,218
Business-type activities										
Net investment in capital assets	$ 15,606,285	$ 16,389,484	$ 17,035,479	$ 13,630,412	$ 19,182,389	$ 19,337,856	$ 20,531,108	$ 21,545,419	$ 24,344,617	$ 24,042,159
Restricted	487,762	32,326	36,788	38,565	58,469	71,731	87,591	18,283	-	-
Unrestricted	4,702,911	5,072,765	4,383,221	8,059,411	4,053,800	5,337,852	5,506,717	4,493,409	3,139,921	4,705,617
Total business-type activities net position	$ 20,796,958	$ 21,494,575	$ 21,455,488	$ 21,728,388	$ 23,294,658	$ 24,747,439	$ 26,125,416	$ 26,057,111	$ 27,484,538	$ 28,747,776
Primary government										
Net investment in capital assets	$ 46,756,514	$ 47,121,698	$ 49,617,108	$ 45,853,555	$ 53,669,618	$ 55,527,309	$ 56,953,192	$ 58,337,988	$ 61,290,019	$ 60,881,667
Restricted	970,386	612,710	525,921	752,606	498,129	550,626	621,617	313,460	371,859	498,538
Unrestricted	11,730,704	13,463,738	12,529,038	17,360,123	11,623,661	11,844,189	12,501,925	9,006,760	7,446,744	9,673,789
Total primary government net position	$ 59,457,604	$ 61,198,146	$ 62,672,067	$ 63,966,284	$ 65,791,408	$ 67,922,124	$ 70,076,734	$ 67,658,208	$ 69,108,622	$ 71,053,994

Source: Comprehensive Annual Financial Reports

(1) 2011 and prior have not been restated for GASB 65 regarding expensing of bond issuance costs.

Table 2

CITY OF WATAUGA
CHANGES IN NET POSITION
Last Ten Fiscal Years
(accrual basis of accounting)
(Unaudited)

	2008 (1)	2009 (1)	2010 (1)	2011 (1)	2012	2013	2014	2015	2016	2017
Expenses										
Governmental activities:										
General government	$ 4,764,459	$ 4,821,004	$ 5,051,415	$ 5,631,743	$ 6,334,463	$ 5,965,810	$ 5,946,991	$ 5,928,568	$ 6,107,863	$ 3,486,528
Public Safety	4,168,608	4,209,793	4,431,774	4,754,148	4,678,418	5,135,677	5,121,732	5,430,215	6,029,558	5,845,630
Public Works	1,945,380	1,993,867	2,136,811	2,008,511	1,771,771	1,473,221	1,980,003	1,315,752	987,328	2,472,838
Culture and recreation	2,224,257	2,108,473	1,648,292	2,372,064	2,467,403	2,372,941	2,411,179	3,077,296	3,724,218	5,095,575
Interest on long-term debt	661,324	679,483	560,285	471,940	755,827	496,694	364,167	446,308	377,813	448,368
Total governmental activities expenses	13,764,028	13,812,620	13,828,577	15,238,406	16,007,882	15,444,343	15,824,072	16,198,139	17,226,780	17,348,939
Business-type activities:										
Water and Sewer	6,127,753	5,886,812	6,260,844	6,199,136	6,458,485	6,502,520	6,416,253	7,232,341	7,300,779	6,979,614
Drainage Utility	877,922	901,079	843,690	914,987	1,080,620	1,152,248	1,087,378	946,494	932,806	978,469
Total business-type activities expenses	7,005,675	6,787,891	7,104,534	7,114,123	7,539,105	7,654,768	7,503,631	8,178,835	8,233,585	7,958,083
Total primary government expenses	$ 20,769,703	$ 20,600,511	$ 20,933,111	$ 22,352,529	$ 23,546,987	$ 23,099,111	$ 23,327,703	$ 24,376,974	$ 25,460,365	$ 25,307,022
Program Revenues										
Governmental activities:										
Fees, Fines, and Charges for services:										
General Government	$ 87,993	$ 102,044	$ 212,514	$ 320,960	$ 90,425	$ 133,938	$ 125,385	$ 123,006	$ 131,200	$ 126,955
Public Safety	1,188,612	1,323,097	1,330,535	1,772,981	1,994,440	1,660,967	1,852,051	1,799,906	2,015,413	1,998,687
Public Works	438,719	434,925	214,136	244,236	456,805	430,403	489,628	468,706	634,100	612,106
Culture and recreation	214,755	220,824	390,920	442,579	233,136	254,023	273,498	272,611	274,796	261,019
Operating grants and contributions	68,346	64,747	62,761	20,646	16,909	20,088	16,438	13,959	35,537	16,111
Capital grants and contributions	-	-	161,482	168,941	-	209,350	-	-	-	-
Total governmental activities program revenues	1,998,425	2,145,637	2,372,348	2,970,343	2,791,715	2,708,769	2,757,000	2,678,188	3,091,046	3,014,878
Business-type activities:										
Charges for services:										
Water and Sewer	6,827,535	6,710,552	6,683,362	7,040,653	8,221,767	8,159,949	7,894,765	7,877,670	8,660,703	8,206,959
Drainage Utility	696,073	698,711	700,295	702,665	1,296,024	1,413,708	1,416,053	1,419,324	1,410,213	1,419,460
Capital grants and contributions	-	-	-	-	-	-	16	-	-	-
Total business-type activities program revenues	7,523,608	7,409,263	7,383,657	7,743,318	9,517,791	9,573,657	9,310,834	9,296,994	10,070,916	9,626,419
Total primary government program revenues	$ 9,522,033	$ 9,554,900	$ 9,756,005	$ 10,713,661	$ 12,309,506	$ 12,282,426	$ 12,067,834	$ 11,975,182	$ 13,161,962	$ 12,641,297

Table 2
(continued)

CITY OF WATAUGA
CHANGES IN NET POSITION, LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Unaudited)

	2008 (1)	2009 (1)	2010 (1)	2011 (1)	2012	2013	2014	2015	2016	2017
Net (Expense)/Revenue										
Governmental activities	$ (11,765,603)	$ (11,666,983)	$ (11,456,229)	$ (12,268,063)	$ (13,216,167)	$ (12,735,574)	$ (13,067,072)	$ (13,519,951)	$ (14,135,734)	$ (14,334,061)
Business-type activities	517,933	621,372	279,123	629,195	1,978,686	1,918,889	1,807,203	1,118,159	1,837,331	1,668,336
Total primary government net expense	$ (11,247,670)	$ (11,045,611)	$ (11,177,106)	$ (11,638,868)	$ (11,237,481)	$ (10,816,685)	$ (11,259,869)	$ (12,401,792)	$ (12,298,403)	$ (12,665,725)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Property taxes	$ 6,070,750	$ 5,999,752	$ 5,947,914	$ 5,627,282	$ 5,689,606	$ 5,627,201	$ 5,677,248	$ 5,943,335	$ 6,246,763	$ 7,022,618
Franchise taxes	954,692	1,033,043	1,039,844	1,216,628	1,090,651	1,065,054	1,125,164	1,184,339	1,114,190	1,003,842
Sales taxes	5,209,951	4,951,896	5,144,963	5,626,261	5,685,949	5,675,542	6,008,050	6,284,432	5,868,069	5,814,302
Penalties and Interest	57,424	44,683	44,805	40,246	39,239	33,006	32,724	42,000	32,295	39,561
Payments in lieu of taxes	370,387	371,890	360,928	370,075	460,537	471,721	469,219	458,232	370,897	457,222
Investment earnings	568,060	280,729	69,855	38,733	32,675	25,392	10,763	29,030	68,650	152,516
Gain on Sale of Assets	-	(6,747)	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	15,828	43,872	51,317	26,435	3,960	9,439
Transfers	370,388	34,662	360,928	370,155	460,537	471,721	469,219	578,070	453,897	516,695
Total governmental activities	13,601,652	12,709,908	12,969,237	13,289,380	13,475,022	13,413,509	13,843,704	14,545,873	14,158,721	15,016,195
Business-type activities:										
Investment earnings	201,460	110,910	24,115	13,860	8,256	5,613	3,384	21,017	43,863	103,443
Miscellaneous revenue	-	-	-	-	39,865	0	36,608	9,196	130	8,154
Transfers	(370,388)	(34,662)	(360,928)	(370,155)	(460,537)	(471,721)	(469,219)	(578,070)	(453,897)	(516,695)
Total business-type activities	(168,928)	76,248	(336,813)	(356,295)	(412,416)	(466,108)	(429,227)	(547,857)	(409,904)	(405,098)
Total primary government	$ 13,432,724	$ 12,786,156	$ 12,632,424	$ 12,933,085	$ 13,062,606	$ 12,947,401	$ 13,414,477	$ 13,998,016	$ 13,748,817	$ 14,611,097
Change in Net Position										
Governmental activities	$ 1,836,049	$ 1,042,925	$ 1,513,008	$ 1,021,317	$ 258,855	$ 677,935	$ 776,632	$ 1,025,922	$ 22,987	$ 682,134
Business-type activities	349,005	697,620	(57,690)	272,900	1,566,270	1,452,781	1,377,976	570,302	1,427,427	1,263,238
Total primary government	$ 2,185,054	$ 1,740,545	$ 1,455,318	$ 1,294,217	$ 1,825,125	$ 2,130,716	$ 2,154,608	$ 1,596,224	$ 1,450,414	$ 1,945,372

Source: Comprehensive Annual Financial Reports

(1) 2011 and prior have not been restated for GASB 65 regarding expensing of bond issuance costs.

Table 3

CITY OF WATAUGA
FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	2008	2009	2010	2011**	2012	2013	2014	2015	2016	2017
General Fund										
Non-spendable										
Inventories				$ 19,280	$ 30,009	$ 16,182	$ 16,095	$ 17,389	$ 17,636	$ 20,440
Prepaid				-	1,060	8,602	106,545	91,173	184,729	20,491
Assigned										
Other purposes				37,698	30,512	-	-	-	-	-
Unassigned				6,136,979	5,584,021	5,516,922	5,914,070	5,734,435	5,274,387	4,490,902
Total general fund**				$ 6,193,957	$ 5,645,602	$ 5,541,706	$ 6,036,710	$ 5,842,997	$ 5,476,752	$ 4,531,833
Reserved*	$ -	$ -	$ 27,870	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unreserved	6,457,507	6,690,658	6,339,861	-	-	-	-	-	-	-
Total general fund	$ 6,457,507	$ 6,690,658	$ 6,367,731	$ -	$ -	$ -	$ -	$ -	$ -	$ -
All Other Governmental Funds										
Non-spendable										
Prepaid items				$ 789,450	$ -	$ -	$ 7,770	$ 26,021	$ 6,766	$ 7,198
Restricted										
Capital acquisitions and contractual obligations				5,179,695	2,976,396	2,356,746	5,239,060	4,076,280	8,578,094	5,919,345
Debt service				444,941	469,446	485,087	540,837	342,274	397,992	539,900
Culture and recreation				1,979,061	1,933,581	914,222	742,157	695,139	751,871	838,576
Public Works				-	-	210,288	421,174	654,858	818,069	1,084,390
Public Safety				2,034,849	1,222,484	1,345,927	1,389,689	1,500,796	1,493,577	1,768,676
Total all other governmental funds				$ 10,427,996	$ 6,601,907	$ 5,312,270	$ 8,340,687	$ 7,295,368	$ 12,046,369	$ 10,158,085
Reserved	$ 570,496	$ 684,739	$ 574,998	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unreserved, reported in:										
Special revenue funds	2,074,940	2,627,994	2,922,789	-	-	-	-	-	-	-
Capital projects funds	6,280,220	3,862,015	4,006,543	-	-	-	-	-	-	-
Debt service funds	-	-	-	-	-	-	-	-	-	-
Total all other governmental funds	$ 8,925,656	$ 7,174,748	$ 7,504,330	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Note: *Includes encumbrances and prepaid items
** Beginning 2011, fund balances are reported using GASB 54 classifications
Source: Comprehensive Annual Financial Reports

Table 4

CITY OF WATAUGA
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues										
Taxes and franchise fees	$ 12,143,072	$ 12,014,774	$ 12,189,384	$ 12,523,295	$ 12,464,130	$ 12,407,885	$ 12,822,665	$ 13,471,718	$ 13,263,260	$ 13,867,337
Licenses and permits	268,657	257,159	218,013	262,778	270,716	250,579	309,592	285,258	454,991	428,530
Charges for services	609,945	646,535	699,238	680,564	664,507	625,613	777,747	748,687	741,565	745,127
Fines and forfeitures	709,477	701,608	884,038	1,439,291	1,593,653	1,351,756	1,396,063	1,298,897	1,563,928	1,522,589
Intergovernmental	370,387	371,890	360,928	370,075	460,537	471,721	469,219	458,232	370,897	457,222
Interest income	568,060	280,729	69,855	37,640	32,208	24,871	10,252	26,987	59,651	139,237
Other revenues	278,511	292,247	544,859	648,553	262,839	511,617	306,504	320,016	364,976	314,273
Total revenues	14,948,109	14,564,942	14,966,315	15,962,196	15,748,590	15,644,042	16,092,042	16,609,795	16,819,268	17,474,315
Expenditures										
General government	4,509,573	4,606,396	4,822,147	5,529,085	5,864,502	5,420,278	5,377,270	5,728,240	5,760,512	5,870,276
Public Safety	3,828,676	3,949,284	4,096,391	4,478,774	4,889,939	4,684,746	4,964,649	5,071,414	5,464,615	5,750,992
Public Works	721,456	744,743	741,395	776,906	876,295	910,769	889,230	1,016,998	1,102,216	1,165,026
Parks and recreation	2,068,439	1,977,466	1,986,185	2,080,067	2,189,744	2,092,790	2,029,768	1,992,632	2,041,848	2,114,393

CITY OF WATAUGA
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Capital outlay	$ 4,296,632	$ 2,753,788	$ 1,594,427	$ 3,935,880	$ 4,154,050	$ 2,414,949	$ 1,231,682	$ 1,771,807	$ 2,203,694	$ 3,419,723
Debt service										
Interest	608,920	608,335	550,788	591,733	558,491	529,045	484,055	428,072	471,377	474,609
Principal	1,385,000	1,477,349	1,529,255	1,540,000	2,066,378	1,515,502	1,587,774	1,850,150	1,447,632	1,695,225
Total expenditures	17,418,696	16,117,361	15,320,588	18,932,445	20,599,399	17,568,079	16,564,428	17,859,313	18,491,894	20,490,244
Excess of revenues over (under) expenditures	(2,470,587)	(1,552,419)	(354,273)	(2,970,249)	(4,850,809)	(1,924,037)	(472,386)	(1,249,518)	(1,672,626)	(3,015,929)
Other Financing Sources (Uses)										
Proceeds from borrowing	-	-	-	5,284,887	-	-	3,594,057	-	5,885,000	-
Proceeds from refunding	-	-	-	1,020,000	-	2,145,000	-	-	-	-
Payments to escrow agent	-	-	-	(1,002,832)	-	(2,099,293)	-	-	-	-
Bond Issuance Costs	-	-	-		-	-	-	-	193,580	-
Sale of Asset	-	-	-	47,931	15,828	13,076	222,531	25,416	55,785	16,031
Transfers in	2,449,405	664,172	2,375,290	1,135,495	2,003,017	1,870,557	845,519	990,970	696,379	892,793
Transfers out	(2,079,017)	(629,510)	(2,014,362)	(765,340)	(1,542,480)	(1,398,836)	(576,300)	(1,095,900)	(773,362)	(726,098)
Total other financing sources (uses)	370,388	34,662	360,928	5,720,141	476,365	530,504	4,085,807	(79,514)	6,057,382	182,726
Net change in fund balances	$ (2,100,199)	$ (1,517,757)	$ 6,655	$ 2,749,892	$ (4,374,444)	$ (1,393,533)	$ 3,613,421	$ (1,329,032)	$ 4,384,756	$ (2,833,203)
Debt service as a percentage of noncapital expenditures	15.2%	15.6%	15.2%	14.2%	16.0%	13.5%	13.5%	13.8%	11.4%	13.0%

Source: Comprehensive Annual Financial Reports

Additional to capital assets - per reconciliation

Table 5

CITY OF WATAUGA
ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Estimated Market Value: Real Property	Estimated Market Value: Personal Property	Estimated Market Value: Total Market Value	Less: Tax-Exempt Property	Total Taxable Assessed Value[a]	Total Direct Tax Rate
2008	$ 1,040,261,804	$ 62,689,353	$ 1,102,951,157	$ 86,640,804	$ 1,016,310,353	0.580763
2009	1,049,378,376	62,631,471	1,112,009,847	84,725,733	1,027,284,114	0.580763
2010	1,039,914,283	59,970,228	1,099,884,511	92,105,295	1,007,779,216	0.580763
2011	1,009,121,712	58,195,469	1,067,317,181	95,532,598	971,784,583	0.580763
2012	999,533,945	62,820,983	1,062,354,928	98,182,457	964,172,471	0.589001
2013	1,000,809,690	59,216,606	1,060,026,296	100,655,583	959,370,713	0.591216
2014	1,000,519,629	59,016,802	1,059,536,431	103,068,099	956,468,332	0.591216
2015	1,061,590,252	60,822,613	1,122,412,865	105,745,517	1,016,667,348	0.591216
2016	1,026,885,318	62,537,180	1,089,422,498	108,372,567	981,049,931	0.618718
2017	1,257,351,904	62,026,022	1,319,377,926	111,483,084	1,207,894,842	0.061841

Source: Tarrant Appraisal District (www.tad.org)

[a] Assessed value taken from original certified tax roll provided by the Tarrant Appraisal District

Table 6

City of Watauga
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(rate per $100 of assessed value)
(Unaudited)

	City Direct Rates			Overlapping Rates [a]						
Fiscal Year	M&O Rate	General Obligation Debt Service	Total Direct	Keller Ind School District	Birdville Ind School District	Tarrant County	Tarrant County Hospital	Tarrant County College	Combined Rates KISD	Combined Rates BISD
2008	0.400644	0.180119	0.580763	1.357400	1.405000	0.266500	0.230397	0.139380	2.574440	2.622040
2009	0.399918	0.180845	0.580763	1.416900	1.410000	0.264000	0.227897	0.137960	2.627520	2.620620
2010	0.419540	0.161223	0.580763	1.486300	1.405000	0.264000	0.278970	0.137670	2.747703	2.666403
2011	0.409617	0.171146	0.580763	1.530600	1.425000	0.264000	0.227897	0.137640	2.740900	2.635300
2012	0.412374	0.176627	0.589001	1.540000	1.435000	0.264000	0.227897	0.148970	2.769868	2.664868
2013	0.412107	0.179109	0.591216	1.540000	1.435000	0.264000	0.227897	0.148970	2.772083	2.667083
2014	0.410519	0.180697	0.591216	1.540000	1.435000	0.264000	0.227897	0.149500	2.772613	2.667613
2015	0.412887	0.178329	0.591216	1.540000	1.435000	0.264000	0.227897	0.149500	2.772613	2.667613
2016	0.440171	0.178547	0.618718	1.540000	1.453900	0.264000	0.227897	0.149500	2.800115	2.714015
2017	0.423017	0.195394	0.618411	1.520000	1.453900	0.254000	0.227897	0.144730	2.765038	2.698938

Source: Tarrant County Appraisal District - Tax Rates

Note: Rates for debt service are set based on each year's requirements.
[a] Overlapping rates are those of local and county governments that apply to property owners within the City of Watauga.

Table 7

City of Watauga
Principal Property Tax Payers
Current Year and Nine Years Ago
(Unaudited)

	2017				2008		
Taxpayer	**Taxable Assessed Value**	**Rank**	**Percentage of Total City Taxable Assessed Value** a)	**Taxpayer**	**Taxable Assessed Value**	**Rank**	**Percentage of Total City Taxable Assessed Value** b)
Inland Western Watauga Lp	$ 34,309,861	1	2.84%	Inland Western Watauga Lp	$ 31,293,353	1	3.08%
Watauga Towne Crossing LLC	24,900,360	2	2.06%	Watauga Towne Crossing LLC	22,219,100	2	2.19%
Brookwillow Watauga LLC	13,750,000	3	1.14%	Sci Watauga Town Ctr Fund Etal	15,320,000	3	1.51%
Park Vista Townhomes Etal	10,800,000	4	0.89%	Dayton Hudson Corp.	12,344,400	4	1.21%
Dayton Hudson Corp.	9,394,160	5	0.78%	Southwestern Bell	9,734,773	5	0.96%
Oncor Electric Delivery Co LLC	7,286,176	7	0.60%	Park Vista Townhomes	8,751,260	6	0.86%
Watauga All Storage LTD	6,451,896	6	0.53%	Oncor Electric Delivery Co LLC	7,570,168	7	0.74%
Brooks Crossing SC LTD	5,097,973	8	0.42%	Watauga All Storage	7,178,524	8	0.71%
Southwestern Bell	5,016,750	9	0.42%	Watauga Assoc	4,047,281	9	0.40%
Target Stores	4,741,200	10	0.39%	Abs Tx Investor Lp	3,948,728	10	0.39%
Total	$ 121,748,376		10.08%		$ 122,407,587		12.04%

Source: Tarrant Central Appraisal District
TAD.org ->reports->year->top taxpayers

NOTE:
a) Total taxable value including real and personal property for tax year 2016 (FY 2016-2017) is $1,207,894,842
b) Total taxable value including real and personal property for tax year 2007 (FY 2007-2008) is $1,016,310,353

CITY OF WATAUGA
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Taxes Levied for the Fiscal Year	Adjustments to Levy in Subsequent Years	Adjusted Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
				Amount	Percentage of Levy		Amount	Percentage of Levy
2008	5,909,897	(26,768)	$ 5,883,129	$ 5,846,868	99.38%	$ 24,898	$ 5,871,766	99.81%
2009	6,022,386	(17,925)	6,004,461	5,951,703	99.12%	43,521	5,995,224	99.55%
2010	5,974,330	(2,486)	5,971,844	5,914,614	99.04%	48,886	5,963,500	99.82%
2011	5,644,747	(1,251)	5,643,496	5,590,780	99.07%	42,265	5,633,045	99.79%
2012	5,655,637	(3,438)	5,652,199	5,602,319	99.12%	36,203	5,638,522	99.76%
2013	5,644,682	(6,692)	5,637,990	5,596,849	99.27%	30,069	5,626,918	99.80%
2014	5,684,546	(5,751)	5,678,795	5,622,210	99.00%	44,714	5,666,924	99.79%
2015	5,950,064	(9,338)	5,940,726	5,903,688	99.38%	22,837	5,926,525	99.76%
2016	6,261,312	2,704	6,264,016	6,216,717	99.24%	23,115	6,239,832	99.61%
2017	7,023,037	-	7,023,037	6,969,596	99.24%	n/a	6,969,596	99.24%

Sources: Tarrant County Tax Office and Tarrant Appraisal District

Table 9

CITY OF WATAUGA
Water Revenue
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	*No of Customers	**Gallons Billed	***Water Revenue
2008	8,195	806,124,858	$ 3,812,630
2009	8,196	782,558,167	3,809,973
2010	8,162	759,236,412	3,633,149
2011	8,199	859,158,707	4,198,305
2012	8,169	696,350,699	4,526,971
2013	8,160	684,273,847	4,439,701
2014	8,196	672,400,560	4,342,748
2015	8,208	659,047,433	4,184,780
2016	8,255	677,806,287	4,491,891
2017	8,248	614,615,519	4,230,822

*Source: Table 16 - # of Water Consumers
**Source: Monthly E-mail sent by D. Defriese, Utility Billing Supervisor
***Source: Comparative Summary of Monthly Water Billings

Table 10

CITY OF WATAUGA
Principal Water Customers
As of September 30, 2017
(Unaudited)

Customer Name	Gallons Consumed (000)	Total	Dollars Billed	Total
Park Vista Townhomes	16,552	2.69%	$ 77,977	1.84%
Daybreak Venture	6,424	1.05%	42,284	1.00%
Denton Hwy Laundromat	3,585	0.58%	23,653	0.56%
Kwik Kar Wash	2,357	0.38%	17,445	0.41%
Harvest Baptist Church	1,770	0.29%	11,734	0.28%
Modern Wash, Maneklal Patel	1,715	0.28%	11,364	0.27%
Keller ISD	1,582	0.26%	10,754	0.25%
TPCMW, Inc.	1,541	0.25%	10,231	0.24%
Pollo Tropical	1,508	0.25%	10,901	0.26%
Watauga 377, LLC	1,399	0.23%	8,593	0.20%
Top Ten Total	38,433	6.25%	$ 224,936	5.32%
City Total	614,616		$ 4,230,822	

Table 11

CITY OF WATAUGA
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years
(Unaudited)

	Governmental Activities					Business-Type Activities						
Fiscal Year	General Obligation Bonds	Certificates of Obligation	Sales Tax Revenue Bonds	Unamortized Bond Premium	Other Obligations	Water and Sewer Revenue Bonds	General Obligation Bonds	Certificates of Obligation	Unamortized Bond Premium	Total Primary Government	Percentage of Personal Income [b]	Per Capita [b]
2008	$ 4,860,000	$ 8,765,000	$ 1,515,000	$ -	$ 900,080	$ -	$ 8,730,000	$ 660,000	$ -	$ 25,430,080	4.30%	1,042
2009	4,365,000	7,260,000	1,340,000	-	857,731	-	7,790,000	450,000	-	22,062,731	3.71%	904
2010	3,965,000	7,090,000	1,165,000	-	813,476	-	6,815,000	230,000	111,599	20,078,476	3.39%	823
2011	3,560,000	10,440,000	985,000	79,988	767,230	-	5,800,000	2,780,000	141,809	24,412,218	4.60%	1,081
2012	3,190,000	9,895,000	800,000	74,400	718,903	-	4,740,000	10,380,000	519,658	29,798,303	5.63%	1,323
2013	4,950,000	6,940,000	610,000	68,826	668,400	-	3,630,000	9,950,000	477,594	26,817,226	4.93%	1,151
2014	4,430,000	9,620,000	415,000	156,516	615,629	-	2,480,000	9,505,000	435,530	27,222,145	5.08%	1,193
2015	3,745,000	8,925,000	-	146,123	560,479	-	1,275,000	9,050,000	393,467	23,701,602	4.26%	994
2016	3,045,000	14,120,000	-	329,067	502,847	-	-	8,595,000	351,403	26,591,914	4.48%	1,057
2017	2,335,000	13,195,000	-	308,685	442,622	-	-	15,415,000	583,305	31,696,307	5.36%	1,298

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

[b] See Table 15 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

Table 12

CITY OF WATAUGA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years
(Unaudited)

	Governmental Activities			Business-Type Activities						
Fiscal Year	General Obligation Bonds	Certificates of Obligation	Unamortized Bond Premium	General Obligation Bonds	Certificates of Obligation	Unamortized Bond Premium	Total Primary Government	Less: Amount[a] Restricted for Debt Service	Percentage of Actual Taxable Value[b] of Property	Per Capita[c]
2008	$ 4,860,000	$ 8,765,000	$ -	$ 8,730,000	$ 660,000	$ -	$ 23,015,000	$ 970,386	2.17%	949
2009	4,365,000	7,260,000	-	7,790,000	450,000	-	19,865,000	612,710	1.87%	816
2010	3,965,000	7,090,000	-	6,815,000	230,000	111,599	18,211,599	525,921	1.75%	751
2011	3,560,000	10,440,000	79,988	5,800,000	2,780,000	141,809	22,801,797	752,606	2.27%	970
2012	3,190,000	9,895,000	74,400	4,740,000	10,380,000	519,658	28,799,058	498,129	2.94%	1,226
2013	4,950,000	6,940,000	68,826	3,630,000	9,950,000	477,594	26,016,420	550,626	2.65%	1,115
2014	4,430,000	9,620,000	156,516	2,480,000	9,505,000	435,530	26,627,046	621,617	2.72%	1,133
2015	3,745,000	8,925,000	146,123	1,275,000	9,050,000	393,467	23,534,590	313,460	2.28%	1,009
2016	3,045,000	14,120,000	329,067	-	8,595,000	351,403	26,440,470	371,859	2.66%	1,120
2017	2,335,000	13,195,000	308,685	-	15,415,000	583,305	31,836,990	498,538	2.59%	1,314

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.
[a] This is the amount restricted for debt service principal payments for the total primary government.
[b] See Table 5 for property value data.
[c] Population data can be found in Table 15

Table 13

CITY OF WATAUGA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
As of September 30, 2017
(Unaudited)

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable [a]	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Keller Independent School District	$ 706,960,914	2.84%	$ 20,077,690
Birdville Independent School District	266,624,695	7.81%	20,823,389
Tarrant County	321,795,000	0.82%	2,638,719
Tarrant County Hospital County	20,835,000	0.82%	170,847
Subtotal, overlapping debt			43,710,645
City direct debt			16,281,307
Total direct and overlapping debt			$ 59,991,952

Sources: Debt outstanding data provided by each governmental unit.
[a] For percentage of debt applicable to City, data prepared by the Municipal Advisory Council of Texas.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Statistical. This process recognizes that, when considering the city's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

Table 14

CITY OF WATAUGA
PLEDGED-REVENUE COVERAGE
Last Ten Fiscal Years
(Unaudited)

		Water and Sewer Revenue Bonds						PDC Sales Tax Revenue Bonds[c]					
Fiscal Year		Total Revenues[a]	Less: Operating Expenses[b]	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage	Total Revenues[a]	Less Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2008	d	$ 7,006,217	$ 5,264,881	$ 1,741,336	$2,645,000	$ 61,230	0.64	$ 1,351,870	$ 716,715	$635,155	$165,000	$ 48,880	2.97
2009	d	-	-	-	-	-	-	1,265,352	627,100	638,252	175,000	44,946	2.90
2010		-	-	-	-	-	-	1,314,130	632,039	682,091	175,000	40,461	3.17
2011		-	-	-	-	-	-	1,409,944	763,885	646,059	180,000	35,355	3.00
2012		-	-	-	-	-	-	1,418,979	756,666	662,313	185,000	29,880	3.08
2013	e	-	-	-	-	-	-	708,356	702,898	5,458	190,000	24,136	0.03
2014		-	-	-	-	-	-	748,342	697,423	50,919	195,000	17,950	0.24
2015	f	-	-	-	-	-	-	789,696	596,121	193,575	415,000	4,052	0.46
2016		-	-	-	-	-	-	-	-	-	-	-	-
2017		-	-	-	-	-	-	-	-	-	-	-	-

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.
Source: Comprehensive Annual Reports and Official Statement

[a] Includes operating and non-operating revenues
[b] Excludes depreciation, amortization, interest expense and expenditures identified as capital
[c] Bonds are solely supported by a 1/2 cent sales tax approved at an election held in May, 1994 for the purpose of the City Parks and Recreation.
[d] In April, 2008, the City issued $2,430,000 in GO Refunding Bonds to refund $2,400,000 of outstanding Series 1996 Waterworks and Sewer System Revenue Bonds.
e In May, 2012, voters approved a reallocation of 1/4 cent sales tax to the Street Maintenance Fund for a period of 4 years, effective October 1, 2012.
The fund balance in the PDC operating fund is sufficient to pay off the remainder of the bond.
[f] Final Debt Service payment made in FY2015

Table 15

CITY OF WATAUGA

DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Calendar Years

(Unaudited)

Year	Population(1)	Personal Income (thousands of dollars) (2)	Per Capita Personal Income(3)	Median Age(4)	School Enrollment(5)	Unemployment Rate(6)
2008	24,250	$ 591,870	$ 24,407	32.0	5,396	3.3%
2009	24,350	594,310	24,407	32.0	4,428	4.9%
2010	24,250	591,870	24,407	32.0	3,735	8.1%
2011	23,497	530,868	22,593	32.5*	4,864	8.5%
2012	23,497	529,387	22,530	32.9	4,852	7.9%
2013	23,331	543,776	23,307	34.5	4,933	7.0%
2014	23,510	536,240	22,809	33.5	4,755	5.8%
2015	23,331	556,351	23,846	33.7	4,529	5.0%
2016	23,600	593,469	25,147	34.7	3,851	4.1%
2017	24,228	591,592	24,417	34.9	5,380	4.1%

Sources: (1)Year 2010 Population is official U.S. Census Bureau count. Other population estimates from U.S. Census Bureau and NCTCOG annual population estimates. (2) Per Capita income obtained from Sourcebook of Zip code Demographics and Easy Analytic Software Inc (EASI) and Applied Geographic Solutions (AGS) for years 2002-2010. 2011-2016 Per Capital Income from U.S. Census Bureau American Fact Finder. (3) Per Capita personal income calculated by dividing PIT(2) by Pop(1). (4) Median Age from 2010 Census, U.S. Census Bureau American Fact Finder. (5) School Enrollment provided by Birdville and Keller Independent School Districts (6) Unemployment Rates from Texas Workforce Commission - 2016 based on www.bestplaces.net

Table 16

CITY OF WATAUGA
PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago

	2017			2008		
Employer	**Employees (1)**	**Rank**	**Percentage of Total City Employment(2)**	**Employees (1)**	**Rank**	**Percentage of Total City Employment (3)**
Target	245	1	3.89%	280	1	4.34%
Birdville ISD	195	2	3.10%	200	3	3.10%
City of Watauga	176	3	2.80%	190	4	2.95%
Albertson's	176	4	2.80%	190	5	2.95%
Keller ISD	110	5	1.75%	90	7	1.40%
Harvest Baptist	100	6	1.59%	210	2	3.26%
North Pointe Healh & Rehab	92	7	1.46%	122	6	1.89%
Fresco's	60	8	0.95%	80	8	1.24%
Cotton Patch Café	54	9	0.86%	50	10	0.78%
Chili's Grill & Bar	52	10	0.83%	80	9	1.24%
Total	1,260		21.68%	1,492		23.14%

Source:

(1) Sites on Texas, Survey of American Cities, includes full-time and part-time employees, contacted individual employers for verification annually

(2) For 2017, used NCTCOG estimates of 6,295 obtained from the Bureau of Economic Analysis and U.S. Census Burean, analyzed by NCTCOG.

(3) For 2008 City Employment is estimated at 6,447 obtained from Sites on Texas, Demographic data for 2006 by Experien /Applied Geographic Solutions

Table 17

CITY OF WATAUGA
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM,
Last Ten Fiscal Years
(Unaudited)

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government and Administration	29.75	30.00	30.00	30.50	31.50	30.25	31.25	31.65	31.65	32.90
Public Safety										
Police Division	58.75	58.75	58.75	59.25	59.25	51.75	49.75	49.85	49.85	48.85
Fire/EMS Division	22.00	22.00	22.00	22.00	22.00	21.25	21.00	21.00	21.00	21.00
Culture and Recreational	10.50	10.50	10.50	10.50	10.50	10.25	9.25	8.50	8.50	8.50
Library	13.25	13.25	13.25	13.25	13.25	13.00	13.00	12.00	12.00	12.50
Water/Sewer/Drainage	33.75	33.75	33.75	34.25	34.25	36.00	36.00	33.25	33.25	33.25
Fleet Services	4.00	4.00	4.00	4.00	4.00	3.00	3.00	3.00	3.00	3.00
Building	7.00	8.00	8.00	8.00	8.00	8.00	7.00	7.00	7.00	7.00
Parks Development	11.50	11.50	11.50	11.50	11.50	12.00	12.00	8.75 *	8.75	8.75
Total	190.50	191.75	191.75	193.25	194.25	185.50	182.25	175.00	175.00	175.75

Source: City Budget Office.

* Decreased positions due to a shift to contract labor in the Parks Department in fiscal year 2015.

Table 18

CITY OF WATAUGA
OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years
(Unaudited)

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Police										
Calls for Service	11,726	13,532	16,804	13,560	10,976	9,993	8,127	6,565	8,279	10,464
Municipal Citations Issued	15,115	8,792	11,963	17,122	17,074	13,576	8,650	7,961	8,781	3,999
Fire/EMS										
EMS Calls	1,375	966	1,082	836	1,043	1,011	675	1,133	1,395	1,387
EMS Average Response Time (min)	4.00	3.31	3.50	3.50	3.40	3.50	3.20	3.60	3.47	3.50
Ambulance Transports	1,030	743	870	698	848	845	846	946	1,039	1,063
Fire Calls	430	652	690	557	392	693	675	815	759	730
Fire Average Response Time (min)	4.00	3.58	2.58	4.70	4.80	4.60	4.80	413.00	4.07	3.50
Fire Inspections	75	198	269	106	136	181	460	329	336	544
Public Works										
Lane Miles Maintained	84	84	88	88	88	88	88	88	88	88
Miles of Curb and gutter maintained	168	168	168	168	176	176	176	176	176	176
Parks and recreation										
Park Acres Maintained	116	116	119	119	119	119	119	119	119	119
Athletic Fields Maintained	13	13	8	10	10	10	10	10	10	10
Community Center Memberships	2,800	1,267	1,372	1,237	1,320	1,272	1,271	1,063	1,004	988
Program/Class/League Attendance	77,000	56,430	40,938	65,282	91,244	41,775	71,542	46,720	65,005	72,000
Library										
Number of Programs Offered	380	655	693	842	853	1,086	1,155	1,144	1,244	1,326
Number of School Visits	8	18	8	13	36	57	63	64	61	49
Number of Books in Collection	62,131	62,150	65,517	67,614	65,289	73,592	78,990	80,361	79,751	79,283
Number of Media in Collection	14,007	15,247	16,389	17,199	16,700	18,806	20,806	20,719	22,530	23,148
Electronic Format Materials	58	85	53	53	54	52	55	52	52	50
Ebooks & Audiobooks	-	-	-	-	11,674.00	13,524	12,632	20,253	23,765	21,733
Water and Sewer										
Number of Water Consumers	8,195	8,181	8,162	8,199	8,169	8,200	8,196	8,508	8,238	8,248
Average daily consumption (mil gal)	2	2	2	2	2	2.3	2.1	2.2	2.2	2.0
Amt of sewer line inspected (Linear Ft)	10,000	10,000	3,500	3,800	6,000	8,000	21,500	9,665	8,000	8,900

Sources: Various city departments.
Note: Indicators are not available for the general government function.

Table 19

CITY OF WATAUGA
CAPITAL ASSETS BY FUNCTION/PROGRAM
Last Ten Fiscal Years
(Unaudited)

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	12	12	12	11	12	12	12	12	12	12
Animal Control Facility	1	1	1	1	1	1	1	1	1	1
Fire stations	1	1	1	1	1	1	1	1	1	1
Public Works										
Streets (miles)	85.0	85.0	85.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0
Streetlights	703	703	703	703	703	703	703	703	703	703
Traffic signals	11	11	11	11	11	12	12	20	20	20
Parks and recreation										
Acreage (Developed & Undeveloped)[a]	124	124	124	124	124	124	124	124	124	124
Parks	10	10	10	10	10	10	10	10	10	10
Athletic Fields	8	8	8	10	10	10	10	10	10	10
Senior Centers	1	1	1	1	1	1	1	1	1	1
Community centers	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	85.0	85.0	85.0	85.0	85.0	85.0	88.0	88.0	88.0	88.0
Fire hydrants	620	620	620	620	620	620	650	649	649	649
Storage capacity (thousands of gallons)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Shared Ground Storage (owned by NRH)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Wastewater										
Storm sewers (miles)	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4
Sanitary sewers (miles)	85	85	85	85	85	85	85	85	85	85

Sources: Various city departments.